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Water Company, Inc.

Arizona Corporation Commission

DOCKETED

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF ARIZONA-
AMERICAN WATER COMPANY,
INC., FOR A LIMITED WAIVER OF
THE REQUIREMENTS OF A.A.C.
R14-2-801, ET SEQ., AND CERTAIN
RELATED RELIEF.

DOCKET NO. W-01303A-01-0983

AMENDMENT TO APPLICATION FOR
WAIVER AND NOTICE OF INTENT TO
REORGANIZE

I. INTRODUCTION AND PROCEDURAL BACKGROUND

On December 17, 2001, Arizona-American Water Company, Inc., an Arizona corporation ("Arizona-American" or the "Company"), filed an application requesting that the Arizona Corporation Commission (the "Commission") waive compliance with the requirements of A.A.C. R14-2-801, et seq. (the "Affiliated Interests Rules"), with respect to a specific, pending transaction involving Arizona-American's parent, American Water Works Company, Inc., a Delaware corporation ("AWW"), and that corporation's shareholders. As explained in its application, the transaction with respect to which a waiver is requested will have no impact on Arizona-American, its ownership by AWW, its capital structure and its jurisdictional operations.

The subject transaction is described in Arizona-American's original application (which is incorporated herein by reference), and will not be discussed in detail herein. In summary, all, or substantially all, of AWW's common stock, which is publicly traded on the New York Stock Exchange, will be acquired by Thames Water Aqua Holdings

1 GmbH, a company organized under the Federal Republic of Germany ("Thames
2 Holdings"). Thames Holdings is a wholly-owned subsidiary of RWE AG ("RWE"),
3 which is also organized under the Federal Republic of Germany and is a leading
4 international provider of electricity, gas, water, waste management and related industrial
5 services.¹ Because the parties to this transaction are not "public service corporations," as
6 such term is defined in the Arizona Constitution, and because the transaction will be
7 transparent to Arizona-American and its customers, Arizona-American has requested that
8 the Commission declare that the transaction is not subject to the Affiliated Interests Rules
9 or, in the alternative, grant a waiver from such rules with respect to the transaction.

10 Arizona-American's original application was filed on December 17, 2001. Under
11 R14-2-806, which governs waiver from the provisions of the Affiliated Interest Rules, the
12 Commission must act on an application for waiver within 30 days following the filing of
13 an application. In this case, on December 28, 2001, the Director of the Commission's
14 Utilities Division ("Staff") filed a memorandum and proposed form of order requesting
15 that Arizona-American's application be suspended for a period of 120 days. Staff
16 indicated that it did not have adequate time to review the application. Arizona-American
17 did not oppose Staff's request for an extension of time. Thereafter, on January 15, 2002,
18 the Commission issued Decision No. 64362, granting Staff's request.

19 On January 30, 2002, Staff served its first set of data requests on Arizona-
20 American concerning the application and the transaction between AWW and its
21 shareholders and Thames Holdings. Arizona-American provided responses on February
22 11, 2002.

23 In March, representatives of Staff indicated to Arizona-American that, in their
24 view, Arizona-American should provide a notice of intent to reorganize an existing public

25 ¹ A copy of the Agreement and Plan of Merger is attached to Arizona-American's original
26 application.

1 utility holding company pursuant to R14-2-803. Arizona-American disagrees with Staff's
2 position, and continues to maintain that the Commission lacks authority to regulate the
3 transfer of publicly-traded securities issued by foreign corporations. Further, Arizona-
4 American continues to maintain that, in any case, a waiver should be granted pursuant to
5 R14-2-806 because the transaction will not materially impact Arizona-American's
6 jurisdictional operations.

7 However, in order to cooperate with Staff and minimize the likelihood of a
8 dispute, Arizona-American hereby amends its application to include a notice of intent to
9 reorganize and by submitting the information required pursuant to R14-2-803(A). In
10 doing so, Arizona-American does not waive its right to seek other relief, as may be
11 appropriate under the particular circumstances herein.

12 **II. INFORMATION REQUIRED PURSUANT TO R14-2-803(A)**

13 The following information is submitted in accordance with the request of Staff:

14 **1. The names and business addresses of the proposed officers and directors of** 15 **the holding company.**

16 Attached hereto at Tab 1 are the names and business addresses of the individuals
17 responsible for the management of RWE, Thames Holdings and AWW.

18 **2. The business purposes for establishing or reorganizing the holding company.**

19 The instant transaction does not involve the establishment or reorganization of a
20 holding company in the sense contemplated by the Commission when it adopted the
21 Affiliated Interests Rules. See, e.g., Decision No. 56844 (March 14, 1990), Attachment B
22 ("Concise Explanatory Statement") at 1-3; Decision No. 56618 (Aug. 25, 1989)
23 (describing purpose of rules). Instead, as previously indicated, the subject transaction
24 involves the acquisition of all, or substantially all, of AWW's issued and outstanding
25 common stock by Thames Holdings. The acquisition of these shares of common stock
26 will be accomplished by means of a merger in which Apollo Acquisition Company, a

1 Delaware corporation and a wholly owned subsidiary of Thames Holdings, will be
2 merged with and into AWW, with AWW surviving the merger. In conjunction with the
3 merger, Thames Holdings will purchase all of the issued and outstanding shares of
4 AWW's common stock at \$46.00 per share. This transaction was approved by the owners
5 of AWW's common stock at a special meeting on January 17, 2002.²

6 From the perspective of AWW, the transaction has several purposes. First, AWW
7 has pointed out the need to consolidate the water industry for the past several years.
8 Among other things, consolidation assists water systems by lowering costs through
9 improved economies of scale and reductions in the need for duplication of facilities,
10 operations and management. Consolidation also provides better access to capital, which
11 ensures reliable service at affordable rates. Additionally, the transaction will reward
12 shareholders for their investment and support of AWW. The per-share price represents a
13 premium of approximately 35 percent above the closing share price at the time the
14 transaction was announced, and a premium of approximately 29 percent above the highest
15 all-time closing price of AWW's common shares. The transaction will also reward
16 customers with expanded quality service through the worldwide experience of the larger
17 organization. Finally, AWW's employees will benefit by joining an organization with
18 significant capital resources and international opportunities.

19 From the perspective of RWE and Thames Holdings, the acquisition of AWW
20 through the purchase of its common stock will constitute a continuation of RWE's multi-
21 utility strategy. Thames Holdings and its various water subsidiaries collectively comprise
22 the world's third largest water company. RWE is a leading international multi-utility
23 company, with more than 170,000 employees worldwide and annual revenues of nearly
24 \$60 billion. The combination of the efficiency, management and asset-owning

25 ² Stockholders who do not wish to accept the \$46.00 per share cash consideration payable
26 pursuant to the merger agreement have the right to seek judicial appraisal of the fair value
of their shares pursuant to Delaware law.

1 experience of Thames Holdings and the financial strength, multi-utility spread and
2 presence of RWE in continental Europe has resulted in greater economies of scale and
3 new opportunities for business growth. The addition of AWW, the largest and most
4 geographically diversified water services company in the United States, will place RWE
5 and Thames Holdings in an even stronger position, creating additional business
6 opportunities and enhancing shareholder value.

7 **3. The proposed method of financing the holding company and the resultant**
8 **capital structure.**

9 No holding company will be created by virtue of the transaction; with the
10 exception of Apollo (which has been created for the sole purpose of consummating the
11 merger), all of the parties are existing companies with substantial resources and
12 worldwide business operations. Compare Decision No. 56844, Attachment B, supra
13 (discussion of formation of holding company by Arizona Public Service Co. and
14 acquisition of non-utility businesses by Southwest Gas and Tucson Electric Power).
15 Hence, no holding company will be "financed," as contemplated by the Affiliated
16 Interests Rules. RWE will cause Thames Holdings to have funds sufficient to
17 consummate the merger transaction including the purchase of AWW's issued and
18 outstanding shares of common stock. The estimated cost of this transaction is \$4.6
19 billion, based on the number of outstanding AWW shares and the offered price of \$46.00
20 per share. A detailed financing plan will be devised nearer to closing of the transaction,
21 which is expected to be sometime in late 2002. It is anticipated that RWE will finance the
22 acquisition primarily through the issuance of bonds, but will seek the best financial terms
23 available at that time.

24 **4. The resultant effect on the capital structure of the public utility.**

25 The transaction will have no effect on the capital structure of Arizona-American,
26 which will continue to have a capital structure consisting of approximately 55-60 percent

1 debt and 45-40 percent equity, as authorized in conjunction with the acquisition of
2 Citizens Communications Company's water and wastewater utility plant and assets in
3 Decision No. 63584 (April 24, 2001). This capital structure is balanced, and is consistent
4 with the capital structures of larger, publicly traded utilities.

5 Although not required pursuant to R14-2-803(A), it should also be noted that the
6 transaction will not cause AWW's capital structure to change in any material respect.
7 The transaction will not cause AWW to assume any debt or other liabilities that would
8 adversely impact Arizona-American.

9 **5. An organization chart of the holding company that identifies all affiliates and**
10 **their relationships within the holding company.**

11 As of June 30, 2001, RWE had 850 fully consolidated subsidiaries for accounting
12 purposes and 246 other subsidiaries using the equity method of accounting. See RWE
13 Annual Report 2000/2001 at p. 122.³ Thames Holdings, through its subsidiary, Thames
14 Water PLC, has over 41 subsidiaries throughout the world, including joint ventures.
15 Finally, AWW has utility subsidiaries in 23 states, 21 of which are subject to regulation
16 by a state regulatory commission, and a large number of additional, non-regulated
17 subsidiaries in water-related businesses. Because of the complexity and diversity of these
18 corporate structures, it is difficult to provide an organization chart depicting every
19 subsidiary and affiliate and describing each of their relationships. Attached at Tab 2 is a
20 chart that generally depicts RWE's water division, and a current list of AWW's
21 subsidiaries. Please note that a substantial amount of information regarding the
22 businesses and activities of each company is available from RWE's website
23 (www.RWE.com), Thames' website (www.thames-water.com), and AWW's website
24 (www.amwater.com).

25
26 ³ This report was previously provided to Staff.

1 **6. The proposed method for allocating federal and state income taxes to the**
2 **subsidiaries of the holding company.**

3 It has been AWW's policy and practice to have each utility subsidiary operate as a
4 stand-alone corporate entity. Consequently, in conjunction with setting rates and charges
5 for service and related regulatory matters, Arizona-American's federal and state income
6 taxes have been computed on a stand-alone basis. This transaction will not alter this
7 policy, nor will any federal or state income taxes resulting from the activities of any other
8 affiliate be allocated to Arizona-American.

9 **7. The anticipated changes in the utility's cost of service and the cost of capital**
10 **attributable to the reorganization.**

11 As previously discussed, the transaction will not have any effect on the capital
12 structure of Arizona-American. Arizona-American will not assume any debt or other
13 liabilities in connection with the transaction, nor will any costs or obligations of any
14 affiliates be allocated to Arizona-American. The transaction will not cause any change in
15 the manner in which Arizona-American will be operated, nor will local and regional
16 management change as a result of the transaction. Finally, Arizona-American's
17 relationship with AWW and other AWW subsidiaries will not change as a result of the
18 transaction. The only currently anticipated change resulting from the transaction that may
19 affect the cost of capital is that the transaction is likely to result in increased access to
20 capital. RWE has a substantially larger market capitalization than that available at the
21 present time to Arizona-American through AWW and American Water Capital Corp. and
22 therefore has greater equity and debt financing capability. In addition, RWE can raise
23 capital in the European markets as well as in the United States domestic market.
24 Consequently, the transaction may result in a reduction in the cost of capital and a
25 corresponding reduction in the cost of providing utility service in Arizona.

26

1 **8. A description of diversification plans of affiliates of the holding company.**

2 For the reasons explained above, it would be extremely difficult and burdensome
3 to provide diversification plans for each and every entity that would become an "affiliate"
4 of Arizona-American, as such term is defined in R14-2-801(1), as a consequence of the
5 transaction. As previously explained in discussing the business purposes for the
6 transaction, RWE and Thames Holdings intend to continue to expand their water
7 business, by means of both investments in existing water systems and operations and
8 through the acquisition of new water systems and operations. As explained, the
9 acquisition of AWW is expected to enable RWE and Thames Holdings to expand their
10 operations in North America. In this regard, the corporate goals and philosophies of
11 RWE and Thames Holdings are consistent with those of AWW, which recently acquired
12 the water and wastewater utility plant and assets of National Enterprises, Inc. and Citizens
13 Communications Company.

14 **9. Copies of all relevant documents and filings with the United States Securities**
15 **and Exchange Commission and other federal or state agencies.**

16 At present, AWW has operating utility subsidiaries in 23 states. No filings are
17 necessary in Connecticut, Georgia, New Hampshire, Indiana, Massachusetts and
18 Michigan. In five states, Hawaii, Iowa, Missouri, Tennessee and Texas, only advisory
19 letter filings are required. The status of various filings in each state is as follows:

20 California	Application filed on January 28, 2002. A hearing is scheduled during the week of July 29, 2002.
21 Hawaii	Application for approval filed December 11, 2001; an order approving the transaction is imminent.
22 Illinois	Application filed on December 21, 2001. Parties are now in discovery, and a hearing is scheduled for May 21, 2002.
23 Iowa	Request letter sent December 22, 2001. The Iowa Attorney General indicated that the transaction does not require approval.
24 Kentucky	Petition filed on January 31, 2002. Parties are now is discovery,

1 and a hearing is scheduled for May 1, 2002.

2 Maryland Petition filed on December 20, 2001. Parties are now in
3 discovery.

4 Missouri Following the Office of Public Counsel's motion seeking
5 commission review of the transaction, by order dated December
6 23, 2001, the Missouri Public Service Commission ruled that
7 approval is not required.

8 New Jersey Petition filed on December 21, 2001. Parties are now in
9 discovery, and a hearing is scheduled for June 19, 2002.

10 New Mexico Application was filed on December 20, 2001. A hearing is
11 scheduled for May 29, 2002.

12 New York Petition filed on December 20, 2001.

13 Ohio Notice of Transfer of Ownership and Request for Declaration that
14 Approval of the Transfer is not Required was filed on December
15 13, 2001. By order dated January 24, 2002, the Public Utility
16 Commission of Ohio ruled that approval is not required.

17 Pennsylvania Application filed on December 14, 2001. Parties are now in
18 discovery, and a hearing is scheduled for May 7, 2002.

19 Tennessee Application filed on December 12, 2001. On January 8, 2002 the
20 Tennessee Regulatory Authority approved the transaction.

21 Texas Advisory letter sent on December 12, 2001. By order dated
22 January 22, 2002, the Texas Natural Resource Conservation
23 Commission ruled that approval is not required.

24 Virginia Petition filed on December 19, 2001. A decision approving the
25 transaction was issued by Virginia Corporation Commission on
26 April 4, 2002.

West Virginia Petition filed on December 20, 2001. The parties are in
discovery, and a hearing is scheduled for June 25, 2002.

21 Filings have been also been made with the United States Securities and Exchange
22 Commission ("SEC"), including a Proxy Statement pursuant to Section 14(a) of the
23 Securities and Exchange Act. A link to all of AWW's filings with the SEC is provided on
24 AWW's website.

25 Copies of the material documents pertaining to the foregoing matters are filed
26 concurrently herewith in a separately bound Appendix, as requested by Staff.

1 The parties will file a notification and report form under the Hart-Scott-Rodino Act
2 with the Federal Trade Commission and the Antitrust Division of the Department of
3 Justice during the spring of 2002.

4 **10. The contemplated annual and cumulative investment in each affiliate for the**
5 **next five years, etc.**

6 For the reasons previously explained in response to item 8, above, it would be
7 extremely difficult to provide this information due to the large number and diverse nature
8 of the various companies and businesses that will become an "affiliate" of Arizona-
9 American under the definition of "affiliate" provided in R14-2-801(1). In this regard, it
10 must again be emphasized that Arizona-American and its relationship with AWW and
11 other AWW subsidiaries will not change as a result of the transaction. Consequently,
12 from a managerial and operational perspective, Arizona-American's activities and
13 operations in Arizona will continue with little or no change. Funds will be invested in
14 Arizona-American as required to ensure that Arizona-American provides reliable water
15 and wastewater utility services in accordance with all applicable regulatory standards.
16 Arizona-American's commitment to providing high quality service at a reasonable cost
17 will continue.

18 For the reasons previously explained, the transaction will not increase the risks of
19 investment in Arizona-American. Arizona-American will continue to operate as a stand-
20 alone corporate entity. No utility funds will be co-mingled with non-utility funds, nor
21 will any cross-subsidization of non-utility activities take place. Arizona-American's
22 relationship with existing affiliates such as American Water Works Service Company,
23 Inc., and American Water Capital Corp. will not change, nor will the transaction
24 eliminate the Commission's existing regulatory oversight and approval authority with
25 respect to Arizona-American's dealings with those entities. Further, Arizona-American's
26 capital structure will not change, nor will the transaction cause any change in Arizona-

1 American's cost of providing utility service. Consequently, there should be no change in
2 the current level of risk associated with an investment in Arizona-American.

3 **11. An explanation of the manner in which the utility can ensure that adequate**
4 **capital will be available, etc.**

5 As previously explained, there will be no change in Arizona-American's capital
6 structure, nor will there be any change in the relationship between Arizona-American and
7 American Water Capital Corp. At present, American Water Capital Corp. provides debt
8 financing and cash management services to Arizona-American, which is subject to review
9 and approval by the Commission under the agency's authority to review and approve the
10 issuance of bonds, notes and other debt instruments. See Decision No. 64002 (Aug. 30,
11 2002) (approving debt financing from American Water Capital Corp. for Citizens
12 acquisition). See also A.R.S. § 40-301, et seq. Arizona-American also believes that its
13 ability to raise capital may be improved by virtue of the transaction due to RWE's
14 substantially larger market capitalization and access to European capital markets. In
15 addition, AWW will continue to provide equity capital to Arizona-American to finance
16 required infrastructure needs, consistent with maintaining a balanced capital structure.

17 **III. CONCLUSION AND RELIEF REQUESTED.**

18 Arizona-American requests for itself and for its affiliates subject to the
19 Commission's jurisdiction that the Commission either declare that the requirements of
20 A.A.C. R14-2-801, et seq., do not apply to the above-described transaction or,
21 alternatively, grant a waiver of compliance from the requirements of A.A.C. R14-2-801,
22 et seq., and grant such other and further relief as may be appropriate under the
23 circumstances herein.

24 ///

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26 ///

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3 RESPECTFULLY SUBMITTED this 22nd day of April, 2002.

4 FENNEMORE CRAIG, P.C.

5
6 By Norman D. James
7 Norman D. James
8 Jay L. Shapiro
9 Attorneys for Arizona-American Water Company,
Inc.

10 ORIGINAL and ten copies of the
11 foregoing and accompanying appendix
12 were hand-delivered for filing this
13 22nd day of April, 2002, to:

14 Docket Control
15 Arizona Corporation Commission
16 1200 W. Washington St.
17 Phoenix, AZ 85007

18 COPY of the foregoing and accompanying
19 Appendix was hand-delivered this 22nd
20 day of April, 2002, to:

21 Janet F. Wagner, Counsel
22 Legal Division
23 Arizona Corporation Commission
24 1200 W. Washington St.
25 Phoenix, AZ 85007

26 Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

By: Norman D. James

RWE MANAGEMENT

RWE's business is managed by an Executive Board currently consisting of six members. Under German law, the Executive Board has management responsibility for RWE and broad authority to take actions in the name of RWE, subject to the authority expressly reserved by the German Stock Corporation Law and by RWE's Articles of Association to the shareholders or the Supervisory Board. The following list sets forth the (i) name and (ii) citizenship of the members of RWE's Executive Board. In each case, the present principal occupation or employment and the name, principal business and the address of the corporation or other organization in which such employment is conducted is: Member of the Executive Board, RWE Aktiengesellschaft, holding company, Opernplatz 1, D-45128 Essen, Germany.

Dr. Richard R. Klein

Dr. Klein's country of citizenship is Germany.

Dr. Dietmar Kuhnt

Dr. Kuhnt's country of citizenship is Germany.

Dr. Gert Maichel

Dr. Maichel's country of citizenship is Germany.

Manfred Remmel

Mr. Remmel's country of citizenship is Germany.

Dr. Klaus Sturany

Dr. Sturany's country of citizenship is Austria.

Jan Zilius

Mr. Zilius's country of citizenship is Germany.

THAMES HOLDINGS MANAGEMENT

Thames Holdings' business is managed by three managing directors, who are functionally equivalent to the directors and executive officers of a corporation. The following list sets forth the (i) name (ii) business address and (iii) citizenship of each of Thames' managing directors. In each case, unless otherwise indicated, the present principal occupation or employment and the name, principal business and address of the corporation or other organization in which such employment is conducted is: Member of the Executive Board, RWE Aktiengesellschaft, holding company, Opernplatz 1, D-45128 Essen, Germany.

Dr. Richard R. Klein
Thames Water Aqua Holdings GmbH
Opernplatz 1
D-45128 Essen
Germany

Dr. Klein's country of citizenship is Germany.

Dr. Klaus Sturany
Thames Water Aqua Holdings GmbH
Opernplatz 1
D-45128 Essen
Germany

Dr. Sturany's country of citizenship is Germany.

William Alexander
Thames Water Plc
Clearwater Court
Vastern Road
Reading RG1 8DB
United Kingdom

Mr. Alexander is the Chief Executive Officer of Thames Water Plc, Clearwater Court, Vastern road, Reading RG1 8DB, United Kingdom. Mr. Alexander's country of citizenship is the United Kingdom.

AMERICAN WATER MANAGEMENT

The identity of each of the Board Members of AWW after the merger has not yet been determined. It is expected that the current officers of AWW will continue in their present roles, as follows:

J. James Barr
President and Chief Executive Officer

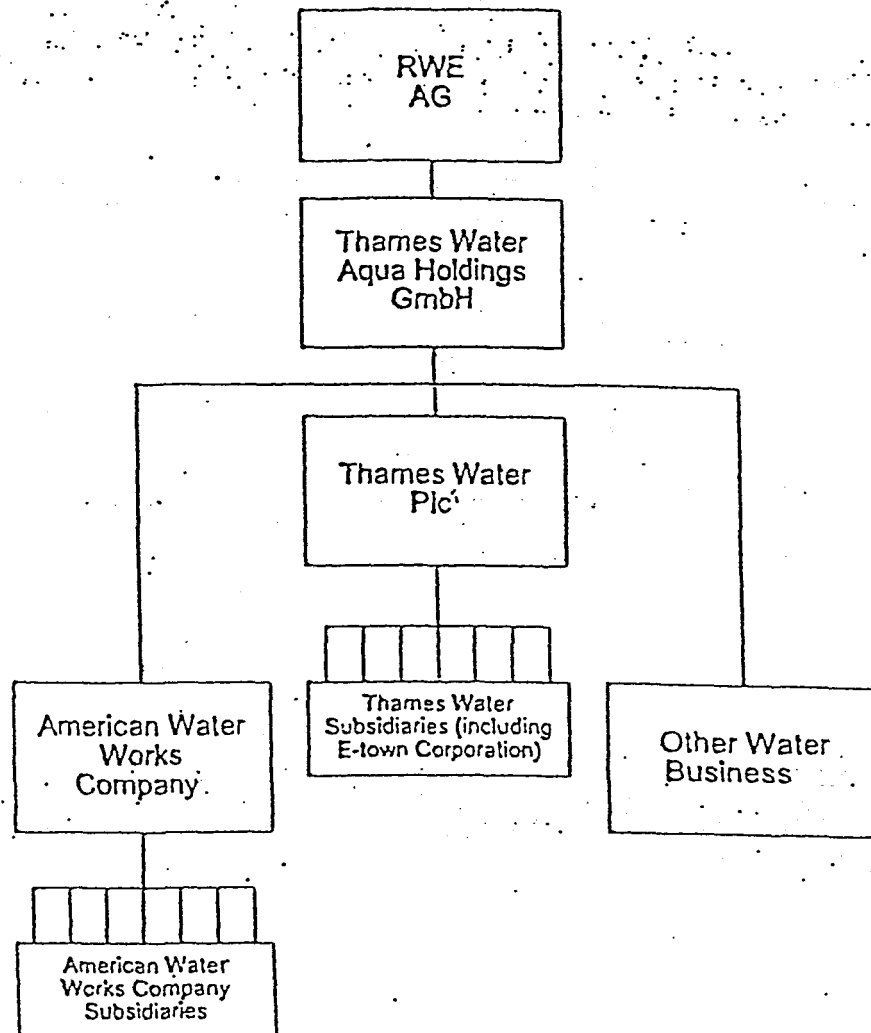
Timothy Pohl
General Counsel and Secretary

Joseph F. Hartnett, Jr.
Treasurer

Ellen C. Wolf
Vice President and Chief Financial Officer

Robert D. Sievers
Controller

RWE AG's Water Division



NOTES TO ORGANIZATION CHART

1. RWE AG, a company organized under the laws of the Federal Republic of Germany, had 850 fully consolidated subsidiaries for accounting purposes and 246 other subsidiaries using the equity method of accounting as of June 30, 2001.
2. Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany, through its wholly-owned subsidiary, Thames Water Plc, has over 41 subsidiaries throughout the world. A list of those subsidiaries is attached.
3. "Other water business" consists of the operations of RWE Aqua, which were transferred to Thames Water on January 1, 2001.
4. American Water Works Company, a Delaware corporation ("AWW"), currently has operations in 29 states and three Canadian provinces, and operating utility subsidiaries in 23 states. The applicant in this case, Arizona-American Water Company, is a wholly-owned subsidiary of AWW. A complete list of AWW's subsidiaries (both regulated and non-regulated) as of February 8, 2002, is attached.

At 31 March 2001, the Group held more than 10% of the allotted share capital of the following principal trading undertakings:

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held- directly	Proportion of shares held- indirectly	Nature of business
Subsidiary Undertakings					
Thames Water Utilities Limited	Great Britain	Ordinary	100%		Water and wastewater services
CONNECT 2020 Limited	Great Britain	Ordinary		100%	Procurement logistics
International Operations:					
Thames Water International Services Holdings Limited	Great Britain	Ordinary	100%		Management company
Thames Water International Services Limited	Great Britain	Ordinary	100%		Marketing of technical managerial services
Thames Water Overseas Limited	Great Britain	Ordinary		100%	Management company
Thames Water Overseas Consultancy Limited	Great Britain	Ordinary	100%		Marketing of technical managerial services
PWT Projects Limited	Great Britain	Ordinary		100%	Process engineering
Water Projects International Limited	Great Britain	Ordinary	100%		Process engineering
Thames Pam Jaya	Indonesia	Ordinary		100%	Water operations and maintenance
Thames Water Asia/Pacific Pty Limited	Australia	Ordinary		100%	Process engineering
Thames Water International (Singapore) Pte Limited	Singapore	Ordinary		100%	Process engineering
Thames Water Engineering (Malaysia) Sdn.Bhd	Malaysia	Ordinary		100%	Process engineering
Thames Water (Malaysia) Sdn.Bhd	Malaysia	Ordinary		90%	Water operations and maintenance
Thames Water International (Thailand) Limited	Thailand	Ordinary		100%	Water operations and maintenance
Thames Water International(Hong Kong) Limited	Hong Kong	Ordinary		100%	Process engineering
Izmit Su AS	Turkey	Ordinary	55%		Water operations and maintenance
BJT Water Company Limited	Thailand	Ordinary		75%	Industrial estate management
Empresa de Servicios Sanitarios del Bio SA (ESSBIO)	Chile	Ordinary		50.964%	Water operations and maintenance
E'town Corporation Inc	USA	Ordinary		100%	Water operations and maintenance
Products:					
Thames Water Products Limited	Great Britain	Ordinary	100%		Water & wastewater equipment, industrial membrane filtration, pipeline products and water disinfection, product technology.
Thames Water Holdings Inc	USA	Common Convertible		100% 100%	Management company
Ashbrook Corporation Inc	USA	Ordinary		100%	Water and wastewater equipment
Hydro-Aerobics Inc	USA	Ordinary		100%	Packaged water treatment systems
F B Leopold Company Inc	USA	Ordinary		100%	Water & wastewater treatment equipment
Services:					
Thames Water Services Limited	Great Britain	Ordinary	100%		Drain and pipe cleaning & rehabilitation, sewerage, waste and incineration facilities management, grounds maintenance
Insurance:					
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Property:					
Kennet Properties Limited	Great Britain	Ordinary	100%		Property
Thames Water Investments Limited	Great Britain	Ordinary	100%		Property
Thames Water Property Limited	Great Britain	Ordinary	100%		Property
Thames Water Developments Limited	Great Britain	Ordinary	100%		Property
Joint Ventures					
Binnie Thames Water Limited	Great Britain	Ordinary		50%	International consultancy
Gemwel Limited	Great Britain	Ordinary		50%	Water and sewerage services
St James Homes Limited	Great Britain	Ordinary	50%		Property
Thames Dick Superaqueduct Partners Inc	USA	Ordinary		50%	Water operations and maintenance
Thames Water Japan Limited	Japan	Ordinary		50%	Finance company
Thames Water International (Thailand) & Ch. Karnchang Public Limited Company Limited (TWCK)	Thailand	Ordinary		50%	Water operations and maintenance
Bovis Thames (Shanghai) Limited	British Virgin Islands	Ordinary		50%	Management company
Inversiones Anders Sur	Chile	Ordinary		50%	Management company

A full list of subsidiary undertakings within the Group will be filed at Companies House with the Company's annual return.

SUBSIDIARIES OF AMERICAN WATER WORKS COMPANY, INC.

American Water Works Company, Inc.
American Water Capital Corp.
American Lake Water Company
American Water Resources, Inc.
AmericanAnglian Canada Company
American Water Services, Inc.
AAET, Inc.
AAET, L.P.
Azurix North America Corp.
Azurix North America (Canada) Corp.
Azurix North America Underground Infrastructure Corp.
Uniflo Sewer Services Inc.
Construction et Pavage Nord Americain Ltee
Canarehab Inc.
Azurix North America Engineering Corp.
Terratec Environmental Ltd.
Azurix North America Industrial Residuals Corp.
Prism-Berlie (Windsor) Limited
Uniflo Limited
Braemar Acres Limited
Trimax Residuals Management Inc.
Azurix North America Carbon Services Corp.
Horseshoe Carbons Incorporated
Rockcliffe Research Management Inc.
Azurix North America (USA), Inc.
Azurix North America Operations and Maintenance, Inc.
Azurix CDM, Inc.
Azurix North America Underground Infrastructure, Inc.
Magnolia Construction Company Inc.
National EnviroTech Group, LLC
Azurix North America Engineering, Inc.
Utility Management and Engineering, Inc.
Philip Automated Management Controls, Inc.
Azurix North America Residuals Management, Inc.
Trimax Residuals Management (USA), Inc.
Dittman-Merka Enterprises, Inc.
Walker Water Works, Inc.
Southwest Utilities, Inc.
Azurix Industrials Corp.
Azurix Industrial Operations Corp.
American Water Works Service Company, Inc.
Arizona-American Water Company
California-American Water Company
Connecticut-American Water Company
Hampton Water Works Company
Massachusetts-American Water Company
New York-American Water Company, Inc.
The Salisbury Water Supply Company
Hawaii-American Water Company
Indiana-American Water Company, Inc.
Illinois-American Water Company
Iowa-American Water Company
Kentucky-American Water Company
Long Island Water Corporation

**SUBSIDIARIES OF AMERICAN WATER WORKS COMPANY, INC.
CONTINUED**

Maryland-American Water Company
Massachusetts Capital Resources Company
Michigan-American Water Company
Missouri-American Water Company
New Jersey-American Resources Company
New Jersey-American Water Company, Inc.
New Mexico-American Water Company, Inc.
Ohio-American Water Company
Pennsylvania-American Water Company
Tennessee-American Water Company
Virginia-American Water Company
United Water Virginia, Inc.
West Virginia-American Water Company
Bluefield Valley Water Works Company

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF ARIZONA-
AMERICAN WATER COMPANY,
INC., FOR A LIMITED WAIVER OF
THE REQUIREMENTS OF A.A.C.
R14-2-801, ET SEQ., AND CERTAIN
RELATED RELIEF.

DOCKET NO. W-01303A-01-0983

**AMENDMENT TO APPLICATION FOR
WAIVER AND NOTICE OF INTENT TO
REORGANIZE**

Arizona Corporation Commission

DOCKETED

APR 22 2002

DOCKETED BY

**APPENDIX VOLUME I
(STATE FILINGS)**

STATE FILINGS

STATES WHERE APPROVAL IS REQUIRED

- A. CALIFORNIA
- B. ILLINOIS
- C. KENTUCKY
- D. MARYLAND
- E. NEW JERSEY
- F. NEW MEXICO
- G. NEW YORK
- H. OHIO
- I. PENNSYLVANIA
- J. VIRGINIA
- K. WEST VIRGINIA

STATES WHERE FORM OF LETTER FILING REQUIRED

- L. HAWAII
- M. IOWA
- N. TENNESSEE
- O. TEXAS

NO FILING NECESSARY

- P. MISSOURI

CALIFORNIA

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of California-American Water Company (U-210-W), a California corporation, RWE Aktiengesellschaft, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Plc, a corporation organized under the laws of the United Kingdom and Wales, and Apollo Acquisition Company, a Delaware Corporation, for an order Authorizing Apollo Acquisition Company to merge with and into American Water Works Company, Inc. resulting in a change of control of California-American Water Company, and for such related relief as may be necessary to effectuate such transaction.

Application No.

(Filed _____, 2002)

Notice of Intent No. 01-12-027

(Filed December 19, 2001)

JOINT APPLICATION

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California-American Water Company

January 28, 2002

INTRODUCTION AND SUMMARY OF PROPOSED TRANSACTION

California-American Water Company ("Cal-Am"), Thames Water Aqua Holdings GmbH ("Thames Holdings"), on behalf of itself and its parent holding company RWE Aktiengesellschaft ("RWE"), Thames Water Plc ("Thames") and Apollo Acquisition Company ("Acquisition Company") by way of this Application filed pursuant to § 854(a) of the California Public Utilities Code, respectfully request that the California Public Utilities Commission ("Commission") approve the transfer of the stock of American Water Works Company, Inc. ("American") pursuant to the Agreement and Plan of Merger ("Agreement"), dated September 16, 2001, by and among RWE, American, Thames Holdings, and Acquisition Company, a Delaware corporation and wholly owned subsidiary of Thames Holdings created solely for the purpose of implementing the Agreement. The Agreement provides that Acquisition Company shall be merged with and into American, the parent of Cal-Am, the operating utility whose change in control the parties thereby seek to effectuate. American shall be the surviving corporation after the merger and shall continue its corporate existence under Delaware law and as a subsidiary of Thames Holdings. Cal-Am will continue to be the operating public utility providing water utility service under the Commission's jurisdiction in the areas where it is authorized to do so. A copy of the Agreement is attached as Exhibit 1.

I. THE PARTIES

1. Applicant Cal-Am, a California corporation, with its principal office located at 880 Kuhn Drive, Chula Vista, California 91914, is a regulated water utility organized and operating under the laws of the State of California. A certified copy of its articles of incorporation was filed with the Commission on January 6, 1966 in connection with Application 48170. A certified copy of an amendment to Cal-Am's articles of incorporation was filed with the Commission on November 30, 1989 in connection with Application 89-11-036. American, a Delaware corporation with its principal office located at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, is a publicly traded company, organized and operating under the laws of the State of Delaware. American is the parent corporation of Cal-Am.

On January 15, 2001, pursuant to the authorization of this Commission in its Decision No. 01-

1 09-057, Cal-Am acquired all of the water utility assets of Citizens Utilities of California ("Citizens").

2 A complete description of Cal-Am's plant, systems and property is on file with the
3 Commission in Cal-Am's 2000 Annual Report to the Commission and in Citizens' 2000 Annual
4 Report to the Commission. Such description includes a statement of the original cost of Cal-Am's
5 property and of the depreciation and amortization reserves applicable to such property. A copy of
6 Cal-Am's most recent financial statements as required by Rule 17 are attached hereto as **Exhibit 2**.

7 2. Applicant Thames Holdings is a company organized under the laws of the Federal
8 Republic of Germany and a wholly owned subsidiary of Applicant RWE, a company also organized
9 under the laws of the Federal Republic of Germany. Both Thames Holdings and RWE have their
10 principal offices located at Opernplatz 1, 45128, Essen, Germany. Thames Holdings will have
11 offices at 1101 Laurel Oak Road, Voorhees, New Jersey. A description of RWE is attached as
12 **Exhibit 3**.

13 3. Applicant Thames is a public limited corporation organized under the laws of England
14 and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom.
15 Thames operates the water division of Thames Holdings, bringing to Thames Holdings its extensive
16 experience and expertise as the largest water and wastewater company in the United Kingdom and
17 one of the largest water and wastewater companies in the world, providing water-related services to
18 over 43 million people throughout the United Kingdom, Australia, China, Indonesia, Malaysia,
19 Puerto Rico, Turkey and other nations. Thames Holdings has delegated full power and authority to
20 Thames to operate its current and future subsidiaries, including American's utility subsidiaries upon
21 completion of the proposed transaction. A description of Thames is attached as **Exhibit 4**.

22 **II. THE AGREEMENT**

23 4. Under the terms of the Agreement, American will become a wholly-owned subsidiary of
24 Thames Holdings which, in turn, is a wholly-owned subsidiary of RWE.

25 5. Cal-Am will continue to be a wholly-owned subsidiary of American and will continue to
26 exist as a California public utility subject to the jurisdiction and regulation of the Commission. As
27 such, the proposed transaction represents an indirect change of control at the parent corporation level
28 and is therefore subject to the provisions of Public Utilities Code § 854(a). A schematic diagram of

1 the transaction is attached as Exhibit 5.

2 6. The Agreement provides that each issued and outstanding share of Common Stock, par
3 value \$1.25 per share, of American ("American Common Stock") not owned by Thames Holdings,
4 Acquisition Company or American, other than shares owned by any holder who invokes appraisal
5 rights under Delaware law, shall be converted into the right to receive cash consideration of \$46.00
6 per share.

7 7. As of September 30, 2001, the authorized capital stock of American consisted of (i)
8 300,000,000 shares of American Common Stock, (ii) 1,770,000 shares of Cumulative Preferred
9 Stock, par value \$25.00 per share (the "Preferred Stock"), (iii) 750,000 shares of Cumulative
10 Preference Stock, par value \$25.00 per share (the "Preference Stock"), and (iv) 3,000,000 shares of
11 Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

12 8. As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding
13 shares held by American as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of
14 the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The
15 Agreement requires American to redeem, prior to the closing of the transaction, each outstanding
16 share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends
17 thereon, and each outstanding share of the Preference Stock at a redemption price of \$25.00 per
18 share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the
19 closing of the transaction, each share of American Common Stock owned by Thames Holdings,
20 Acquisition Company or American shall automatically be cancelled and cease to exist and no
21 consideration shall be delivered in exchange therefor.

22 9. Under the Agreement, RWE will cause Thames Holdings to have funds sufficient to
23 consummate the transaction.

24 10. None of the outstanding debt, owed and recorded as liabilities on the books of Cal-Am,
25 will be affected by the Agreement. All of that outstanding debt will continue to be liabilities and
26 obligations of Cal-Am.

27 11. The Agreement is conditioned upon, among other things, obtaining (i) necessary
28 regulatory approvals, including the approval of the Commission, and (ii) the approval of American's

1 shareholders.

2 **III. CHARACTER OF BUSINESS PERFORMED AND THE TERRITORY SERVED**

3 12. CAL-AM. Cal-Am is a wholly-owned operating subsidiary of American. American is
4 the largest and most geographically diverse investor owned water utility business in the United
5 States. Cal-Am is a Class A water utility regulated by the Commission. Cal-Am presently provides
6 water service to domestic and industrial customers in ten separate systems, including Coronado and a
7 portion of the city of San Diego in San Diego County, six cities and certain unincorporated portions
8 of the Monterey Peninsula in Monterey County, portions of several cities and unincorporated areas of
9 Los Angeles County and the City of Thousand Oaks in Ventura County, Larkfield in Sonoma
10 County, Felton in Santa Cruz County, Montara in San Mateo County and Sacramento County, where
11 its service areas include the City of Isleton and vicinity, the City of Citrus Height, and portions of the
12 unincorporated areas commonly referred to as Cordova, Rosemont, Parkway Estates, Sunrise,
13 Lindale, Foot Hill Farms, Arlington Heights, Linwood, Loretto Heights, Arden Highlands, Arden
14 Estates, El Camino Terrace, El Camino Square, Security Park area, Walnut Grove area, and the
15 unincorporated community of Lincoln Oaks and vicinity in Sacramento and Placer Counties. In total,
16 Cal-Am now provides water service to 26 California communities and approximately 176,000
17 customers. Maps of the existing Cal-Am service areas are attached as Exhibits 6 and 7.

18 13. RWE AKTIENGESELLSCHAFT. The business and operations of RWE are described in
19 Exhibit 3. A copy of its most recent annual report containing its most recent financial statements
20 have been provided to the Commission's Water Staff and will be made available to any interested
21 person upon request.

22 14. THAMES WATER AQUA HOLDINGS GMBH. The business and operations of
23 Thames Holdings are described in RWE's annual report. Thames Holdings' financial statements are
24 consolidated in the RWE financial statements contained in the annual report referred to above. It is
25 presently acting and will continue to act as the parent of Thames upon consummation of the proposed
26 transaction.

27 15. THAMES WATER PLC. The business and operations of Thames are described in
28 Exhibit 4.

1 16. APOLLO ACQUISITION COMPANY. Acquisition Company will not be an operating
2 entity. It was incorporated as a wholly owned subsidiary of Thames Holdings specifically to
3 consummate the merger that is the subject of this Application. Its separate corporate existence will
4 cease when it is merged into American. It has no financial statements and will generate no financial
5 statements in the future. Its executive offices are located at Clearwater Court, Vastern Road, Reading
6 RG1, 8DB, U.K.

7 **IV. JURISDICTION**

8 17. This petition is being filed pursuant to Public Utilities Code §854(a) and the
9 Commission's Rules of Practice and Procedure, Rules Nos. 35 and 36.

10 **V. IMPACT AND BENEFITS OF TRANSACTION**

11 18. The transaction will not have any adverse impact on the existing rates for Cal-Am. Cal-
12 Am will continue to operate under its approved tariffs and rate structures. There are no contemplated
13 changes in the income statement, balance sheet or financial position of Cal-Am as a result of this
14 transaction. Applicants seek no recovery of any acquisition premium and no adjustment to the
15 existing book costs of any of Cal-Am's property or assets. Applicants do not seek recovery of the
16 costs associated with this transaction, such as investment banking fees, legal fees, professional fees ~~or~~
17 internal corporate expenses. Cal-Am's balance sheet will not change as a result of this transaction.
18 Nonetheless, Cal-Am's consolidated pro forma balance sheet giving effect to the merger as specified
19 in Rule 36(c) is attached as Exhibit 8. Applicants waive any right they may have to a stepped up rate
20 base for Cal-Am pursuant to Public Utilities Code §§ 2718 – 2720.

21 19. The transaction contemplated by the Agreement will have no negative impact on the
22 employees of Cal-Am. The transaction is predicated on growth through achieving accelerated
23 business development in the regulated and non-regulated businesses. Further, no overlap exists
24 between Thames' current U.S. operations and Cal-Am's operations. The transaction will cause no
25 changes in local staffing or compensation and the value of employee benefits will not be diminished.
26 In fact, no changes in day-to-day operations and management of Cal-Am are anticipated as a result of
27 this transaction. Further, there will be no changes in any existing union agreement as a result of this
28 transaction.

1 20. Cal-Am will continue to provide safe, adequate and reliable service in fulfillment of its
2 obligations under California and federal law. Thames Holdings intends to rely on incumbent local
3 management and consequently the day-to-day operations of Cal-Am will continue in the same
4 manner as today with no adverse impact on customer service. As more particularly described below,
5 Cal-Am's parent entity, by virtue of its greater resources, will be better positioned to meet future
6 capital demands and to ensure that high quality service is maintained.

7 21. Cal-Am will continue to adhere to its tariffs and to honor all of its customer and
8 regulatory obligations. All affiliated interest agreements approved by the Commission to which Cal-
9 Am is a party will remain in effect unless or until the Commission approves amended agreements.
10 The transaction will not result in the subsidization of non-utility activities by Cal-Am or its
11 customers. Cal-Am does not engage in a significant level of non-utility activity. To the extent that
12 Cal-Am may engage in such activities, it will continue to maintain its books and records to identify
13 those costs and facilities that should be properly excluded for ratemaking purposes.

14 22. The transaction contemplated by the Agreement will not adversely impact competition
15 because Cal-Am will continue to operate in its current franchise territories under the same market
16 conditions which currently exist. Due to geographical separation, there is no competition between
17 Cal-Am and any present operating company or other entity owned by Thames Holdings. Indeed,
18 Thames Holdings has no California regulated operations. Furthermore, because the transaction will
19 result in American having greater access to capital, American and its subsidiaries, including Cal-Am,
20 should be able to compete more effectively in the provision of water services to municipalities
21 interested in out-sourcing services to private water companies. Under the Hart-Scott-Rodino
22 Antitrust Improvements Act of 1976, as amended, and the rules promulgated thereunder by the
23 Federal Trade Commission, the merger may not be completed until notifications have been given to
24 the FTC and the Antitrust Division of the Department of Justice and the applicable waiting period has
25 expired or been terminated. Applicants will take the steps necessary to comply with that Act in a
26 timely fashion.

27 23. The transfer of control proposed in this Application may constitute a "project" under the
28 California Environmental Quality Act (CEQA), Public Resources Code §21000 et. seq. However,

1 even if it is a project as defined in Public Resources Code §21065, it qualifies for an exemption from
2 CEQA pursuant to §15061(b)(3) of the California CEQA Guidelines, Title 14, California Code of
3 Regulations, which provides:

4 “(b) Possible exemptions from CEQA include...

5 (3) The activity is covered by the general rule that CEQA applies only to projects
6 which have the potential for causing a significant effect on the environment.
7 Where it can be seen with certainty that there is no possibility that the activity in
8 question may have a significant effect on the environment, the activity is not
9 subject to CEQA.”

10 Therefore, no further environmental review by the Commission is required.

11 24. The transaction involving Thames Holdings and American will have no adverse impact
12 on the public interest. To the contrary, the association of these two companies will benefit the
13 customers and employees of Cal-Am, and will promote the public interest by combining resources
14 and expertise that will, among other things, create opportunities for sharing best operating practices.

15 25. The transaction will not cause any changes in the existing management and officers of
16 Cal-Am. Thus, Cal-Am will continue to have proven management experience and capability to
17 provide safe, adequate and proper service to the public.

18 26. The transaction contemplated by the Agreement will not result in any adverse changes in
19 Cal-Am policies with respect to service to customers, employees, operations, financing, accounting,
20 capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility
21 operations.

22 27. The transaction will permit Cal-Am to utilize Thames’ experience and expertise in
23 safeguarding its water systems. Thames, with water operations around the globe, has considerable
24 experience in operating water facilities and systems in regions where security concerns have been a
25 fact of life for some time. Cal-Am, and ultimately its customers, will significantly benefit from the
26 sharing of Thames’ extensive experience in developing and implementing comprehensive security
27 measures to protect its customers throughout the world.

28 28. The need to comply with increasingly stringent water quality and environmental
standards, while also rehabilitating and replacing aging water infrastructure, has created substantial

1 demands for capital investment by water utilities. Although American has been extremely successful
2 in raising needed funds, the financial resources and backing of RWE/Thames will enhance Cal-Am's
3 access to capital markets. Access to capital markets at reasonable costs will be a major benefit to
4 Cal-Am and its customers. Greater access to capital will increase Cal-Am's ability to acquire
5 additional water systems, replace aging infrastructure, and implement new technology.

6 29. The association with Thames will further enhance the strong environmental track record
7 of American and its subsidiaries. The transaction enhances Cal-Am's ability to respond to
8 environmental challenges. Backed by RWE's annual research and development budget, Thames is
9 conducting several programs in the area of renewable energy and water reuse. Such programs
10 include the use of desalinization, solar power, fuel cell technology, wind power and local heat and
11 power generating systems. The goal of Thames and American is to facilitate new and expanded
12 environmentally friendly programs that will benefit Cal-Am and its customers.

13 30. The transaction will allow a sharing of research and development between American and
14 Thames. American is recognized as an industry leader in the identification and detection of
15 pathogenic organisms, cryptosporidium being a prime example. Thames enjoys a comparable
16 reputation in the area of water quality monitoring and treatment. The combination of these research
17 and development capabilities offers potential benefits to the customers of Cal-Am.

18 31. The transaction will benefit Cal-Am's employees by providing increased opportunities
19 for training and career development. Like American, Thames firmly believes in equipping its
20 employees with the skills and tools needed to perform at the highest possible level.

21 32. The transaction will not impair Cal-Am's ability to raise necessary capital on reasonable
22 terms and to maintain a reasonable capital structure.

23 33. Cal-Am will remain subject to all applicable laws, regulations, rules, decisions and
24 policies governing the regulation of California public utilities.

25 34. American has a long history of service in the communities where it operates. The
26 philosophy of corporate responsibility to the communities served resides at the core of the RWE,
27 Thames, and American cultures, and this philosophy will continue.

28 **VI. NOTICE AND COMMUNICATIONS**

1 35. Pursuant to Rule 2.3 of the Commission's Rules of Practice and Procedure, a copy of this
2 Application has been served upon the service list attached hereto as Exhibit 9. Those listed on the
3 service list will receive a copy of the Application only, exclusive of the Exhibits due to their size
4 (over 75 pages), cost of reproduction and cost to mail. Also attached to the copy of the Application
5 being served is a complete list of Exhibits to the original Application and a Notice of Availability
6 identifying where a full set of the Exhibits may be reviewed or copies obtained upon request.

7 A proposed notice to customers is attached hereto as Exhibit 10. Within ten days of the filing
8 of this Application Cal-Am will mail to each of its customers a copy of Exhibit 10 subject to any
9 modifications required by the Commission's Public Advisor's Office.

10 36. All correspondence and communications to this proceeding are to be addressed to the
11 following:

12 On behalf of Thames Holdings, Thames, Acquisition Company and RWE:

13 E. Garth Black
14 Cooper, White & Cooper LLP
15 201 California St. 17th Floor
16 San Francisco, CA 94111
Telephone: (415) 433-1900
Facsimile: (415) 433-5530

17 On behalf of Cal-Am:

18 California-American Water Company
19 880 Kuhn Drive
20 Chula Vista, CA 91914
Attn: Kent Turner, Chief Financial Officer
Telephone: (619) 656-2400
Facsimile: (619) 656-2406

21 and

22 Lenard G. Weiss
23 Steefel, Levitt & Weiss, PC
24 One Embarcadero Center, 30th Floor
25 San Francisco, CA 94111
Telephone (415) 788-0900
Facsimile: (415) 788-2019

26 37. The consummation of the transaction and the benefits to be derived therefrom, as
27 discussed above, will be realized more expeditiously if the matter is considered by the Commission
28

1 as quickly as possible. Every effort has been and will be made to provide the Commission with all
2 the information and assurances that it needs to consider the transaction and this Application
3 expeditiously. For these reasons, the Petitioners respectfully request that the Commission process
4 this matter and issue the requested relief on an expedited basis.

5 **VII. SCOPING MEMORANDUM INFORMATION**

6 38. Category: Ratesetting. This proceeding does not fit clearly into any of the categories
7 defined in Rules 5(b) and 5(d). Therefore, by default pursuant to Rule 6.1(c) this proceeding should
8 be conducted as a ratesetting proceeding. The Commission has previously conducted transfer
9 proceedings under its ratesetting rules.

10 39. Hearing. Because of the indirect nature of the change in control proposed by this
11 transaction, and the clear financial, managerial and operational fitness of the Applicants to operate
12 the subject utility systems in accordance with legal requirements, Applicants do not believe that
13 evidentiary hearings are required.

14 40. Issues. The sole issue is whether Applicants have justified the need for the relief
15 requested under Public Utilities Code §854(a).

16 41. Evidence. The general nature of the evidence to be produced by Applicants includes this
17 Joint Application and its attachments. The Direct Testimony of James McGivern and Daniel L.
18 Kelleher are attached as Exhibit 11 and Exhibit 12, respectively. If necessary, additional evidence
19 may be introduced through testimony and exhibits.

20 42. Schedule. For the reasons stated above, Applicants request ex parte or highly expedited
21 treatment of this Application. To comply with Rule 6(a)(1) Applicants have attached as Exhibit 13 a
22 schedule that complies with D. 99-10-064. However, in view of the nature of this Application and
23 absence of controversy over ratemaking impact, Applicants request more expedited treatment than
24 prescribed in D. 99-10-064.

25 **VIII. SHOWING REQUIRED UNDER D. 99-10-064, APPENDIX D**

26 43. Effect of Acquisition Upon Reliability, Compliance with Health and Safety Regulations,
27 Economies of Scale and Customers [Appendix D, §2.02]. Applicants and their subsidiaries and
28 affiliates have provided good quality water service to millions of people in 28 states and in numerous

1 other countries. Cal-Am will continue to be well financed, and will bring the necessary expertise ~~and~~
2 support the investments required by its water systems to comply fully with all regulatory
3 requirements, including, but not limited to, those relating to water quality. Cal-Am's customers will
4 continue to benefit from a well managed and well financed utility dedicated primarily to providing
5 water and wastewater services that can meet all regulatory and health and safety standards.
6 Applicants expect to benefit from improved economies of scale over the long run as additional
7 acquisitions are made and those operations integrated.

8 44. First and Fifth Year Forecasts of Results of Operations [Appendix D, §2.04]. As is
9 explained above, Cal-Am's operations and financial statements will not change on account of the
10 proposed transaction. Therefore, Applicants do not regard pro forma projections for Cal-Am for ~~the~~
11 first and fifth years following the merger as relevant. Nevertheless, Cal-Am's pro forma projections
12 for the first and fifth years following the merger are attached as Exhibit 8.

13 45. Appraisals [Appendix D, §2.05]. No property will change title on account of the
14 proposed transaction and Applicant's seek no adjustment to the book value of any of Cal-Am's ~~assets~~
15 for ratemaking pursuant to Public Utilities Code §§2718-2720. Therefore, no appraisal of Cal-Am's
16 property is necessary as its value for ratemaking will not be modified on account of this transaction.

17 46. Facilities Funded by the Federal or State Government [Appendix D, §2.06]. Applicants
18 agree that the cost of any plant or improvement funded by a loan from the federal or state government
19 should not be included in rate base and not be considered for the purpose of setting rates. No such
20 loans are relevant to this transaction.

21 47. Assets Funded by Contributions [Appendix D, §2.07]. Applicants agree that any assets
22 offset by a contribution liability should not be included in rate base and not be included for the
23 purpose of setting rates. No Cal-Am assets offset by a contribution liability are relevant to or
24 impacted by this transaction.

25 48. Notice [Appendix D, §4.03]. Applicants will give notices of this proposed merger as set
26 forth in paragraph 35 above.

27 49. Public Utilities Code §§ 854(b) and (c). Sections 854(b) and (c) by their terms do not
28 apply to this transaction because it does not involve an electric, gas or telephone utility. Nonetheless,

1 Applicants provide the Commission with the following analysis of the criteria enumerated in those
2 sections to assist the Commission in the prompt consideration of this Application should it choose to
3 review those criteria.

4 A. §854(b)(1) Short and long term economic benefits. Cal-Am will enjoy an
5 enhanced access to capital on account of the transaction which is an immediately available benefit
6 upon closing of the transaction. The long-term benefit to customers of the enhanced access to capital
7 will be its future use in replacing infrastructure and complying with the Safe Drinking Water Act. In
8 addition, Applicants expect that with sharing of best practices ratepayers will enjoy additional long-
9 term economic benefits. Applicants further expect that future acquisitions of privately owned water
10 utilities or municipal water operations will lead to additional economies of scale.

11 B. §854(b)(2) Equitable allocation of benefits. Thames Holdings has agreed to
12 forego the step up in rate base authorized by the Public Utilities Code. By Thames Holdings
13 foregoing this opportunity, Cal-Am's ratepayers will not have to fund through their rates the
14 acquisition premium associated with this transaction and will receive the benefits of the transaction
15 without being required to pay the costs. In addition, Applicants expect that in the continuing exercise
16 of its jurisdiction over Cal-Am's rates and services, the Commission will insure an equitable
17 allocation of the future benefits of the transaction to ratepayers.

18 C. §854(b)(3) Not adversely affect competition. As is explained above, after the
19 transaction is consummated Cal-Am will continue to serve the same service area as it does presently
20 (with the addition of the Citizens service areas) as the sole provider of water service and competition
21 will not be affected by the transaction. Thames does not presently provide water utility service in
22 California.

23 D. §854(c)(1) Maintain or improve financial condition of resulting utility. Cal-Am's
24 current financial condition will not change on account of the transaction other than the fact that in the
25 future it will have enhanced access to capital.

26 E. §854(c)(2) Maintain or improve quality of service. Quality of service may be
27 improved by sharing of best practices, availability of additional expertise and increased research and
28 development.

1 F. §854(c)(3) Quality of management. The transaction will not change Cal-Am's
2 management and after the change of ownership Cal-Am's management will have access to better
3 training, research and development, a broader array of best practices and improved access to capital.
4 Management's ability to provide good service at reasonable rates will therefore be assured.

5 G. §854(c)(4) Fair and reasonable to employees. The transaction will not result in
6 any change in compensation of any employee, and the value of all employee benefits will not be
7 diminished. All union contracts will be maintained. The transaction will cause no reduction in force.
8 Employees will have access to improved training, and employees may have greater opportunities to
9 improve their career paths because they will be a part of a much larger family of companies.

10 H. §854(c)(5) Be fair and reasonable to shareholders. The proposed transaction
11 requires approval of American's shareholders. If they approve the transaction, one can reasonably
12 infer that they consider it fair and reasonable.

13 I. §854(c)(6) Beneficial to state and local economies. The transaction will benefit
14 the local economies where Cal-Am provides water service and that of the state in general because
15 Cal-Am will have better access to capital with which to make necessary future investments and will
16 have access to a broader array of best practices. Cal-Am's ability, for example, to address issues
17 relating to small, distressed water utilities will be enhanced. In addition, Applicants expect enhanced
18 economies of scale over the longer term as additional acquisitions are made. Finally, Thames has
19 historically been deeply involved in the communities it serves in terms of civic and charitable works
20 and intends to continue Cal-Am's efforts in this respect.

21 J. §854(c)(7) Preservation of jurisdiction of the Commission. The transaction will
22 preserve the jurisdiction of the Commission because Cal-Am will continue to operate as a water
23 service utility subject to the Commission's regulation.

24 K. §854(c)(8) Mitigation measures. Because the transaction will cause no harm to
25 ratepayers, employees, shareholders and the public, no mitigation measures are required.

26 /

27 /

28 /

1 **IX. PRAYER**

2 WHEREFORE, the Applicants respectfully request:

3 A. That the Commission issue an Order pursuant to Public Utilities Code §854(a) (i)
4 approving the transaction as contemplated by the Agreement and Plan of Merger by and among
5 RWE, American, Thames Holdings, and Acquisition Company, dated as of September 16, 2001; and
6 (ii) authorizing Thames Holdings, RWE and any other entity owned or controlled by Thames
7 Holdings and managed by Thames to acquire control of American, pursuant to Public Utilities Code
8 § 854(a).

9 B. That the Commission expedite the processing of this Application in order to permit the
10 transaction to proceed as soon as reasonably possible given the desire to close the transaction and
11 proceed to achieve the benefits of the transaction which although not required by law for regulatory
12 approval of such transactions, are likely to be achieved by the combining of the best practices of
13 these strong and experienced companies.

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1 C. Such other and further relief as the Commission may deem appropriate or necessary to
2 effectuate the terms of the Agreement.

3 Executed this 28th day of January, 2002 at San Francisco, California.

4
5 COOPER, WHITE & COOPER LLP

6
7 By: _____
8 E. Garth Black

9 Attorneys for RWE Aktiengesellschaft,
10 Thames Water Aqua Holdings,
11 Thames Water Plc and
12 Apollo Acquisition Company

13
14 STEEFEL, LEVITT & WEISS, PC

15 By: _____
16 Lenard G. Weiss

17 Attorneys for California-American Water Company
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Agreement and Plan of Merger
dated September 16, 2001

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Current Cal-Am Financial Statements

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Description of RWE

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Description of Thames Water Plc

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Schematic of Transaction

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Cal-Am Service Area Maps

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Citizens Service Areas Maps
(service area to be acquired by Cal-Am
per D. 01-09-057)

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Cal-Am's First and Fifth Year Forecasts of Results of Operations

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of California-American Water Company (U-210-W), a California corporation, RWE Aktiengesellschaft, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Plc, a corporation organized under the laws of the United Kingdom and Wales, and Apollo Acquisition Company, a Delaware Corporation, for an order Authorizing Apollo Acquisition Company to merge with and into American Water Works Company, Inc. resulting in a change of control of California-American Water Company, and for such related relief as may be necessary to effectuate such transaction.

Application No.

(Filed _____, 2001)

Notice of Intent No.

(Filed December __, 2001)

AFFIDAVIT OF MAILING OF JOINT APPLICATION

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Attorneys for Joint Applicants
RWE Aktiengesellschaft,
Thames Water Holdings GmbH,
Thames Water Plc, and Apollo
Acquisition Company

Attorneys for Joint Applicant
California-American Water Company

_____, 2002

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AFFIDAVIT OF MAILNG OF JOINT APPLICATION

I, _____, hereby certify that I have this day served the foregoing **JOINT APPLICATION** upon all known parties in this proceedings by U.S. mail, first class postage prepaid, at the addresses listed on the attached Service List for this proceeding.

Executed at San Francisco, California, this _____ day of _____ 2002.

[NAME]

Exhibit 10

(PROPOSED)

CALIFORNIA-AMERICAN WATER COMPANY
NOTICE TO OUR CUSTOMERS
CALIFORNIA-AMERICAN WATER COMPANY
ACQUISITION OF CONTROL BY THAMES WATER

On January __, 2002 California-American Water Company ("Cal-Am") and Thames Water Plc and affiliated companies ("Thames") filed Joint Application No. _____ ("Application") with the California Public Utilities Commission ("Commission"). The Application requests authorization for Thames to acquire all of the stock of Cal-Am's parent company, American Water Works Company, which would result in an indirect change in control of Cal-Am. The purpose of this Notice is to inform you of the filing of this Application and how you can provide input into the process.

Customers of Cal-Am will benefit from the enhanced strength provided by the combination of the companies and there will be no adverse impacts on customer rates. Combining the companies will result in access to greater technical, managerial and financial capabilities. After the combination, Cal-Am will be in a better position, both operationally and financially, to meet increasingly stringent water quality requirements and to fund increasing water infrastructure and technology needs. Cal-Am and Thames do not request any change in rates as a result of the transaction and will not seek to recover any of the costs of the transaction in rates.

The Commission Staff will review the Application, analyze the benefits associated with the proposed transaction, and will present its independent analysis and recommendations in written reports for the Commission's consideration. Copies of the Staff reports will be distributed to interested parties, including any customer who requests a copy. It is expected that the Commission Staff reports will be available in about April of 2002. A copy of the Staff reports may be obtained by contacting the Commission's Water Division at (415) 703-2431. If necessary, the Commission will schedule evidentiary hearings after the issuance of the Staff reports.

Copies of the Application are available for inspection during normal business hours at the following locations: (1) at Cal-Am's offices at 880 Kuhn Drive, Chula Vista, CA 91914; and (2) at the Commission's San Francisco office at 505 Van Ness Avenue, Room 3104, San Francisco, CA 94102.

The Commission will provide customers the opportunity to express their views regarding this Application at public participation hearings if there is sufficient customer interest. If you are interested in such hearings, please state so in writing within 20 days from receipt of this notice and

1 mail it to the Commission's Public Advisor's Office, 505 Van Ness Avenue, Room 5303, San
2 Francisco, CA 94102 (or by email: public.advisor@cpuc.ca.gov). The Commission's Public
3 Advisor's office will also assist members of the public who may wish to participate in any
4 Commission proceedings.

5 The Commission welcomes your comments, and you may submit written comments to the
6 Commission's Water Division at the address listed below. Please state that you are writing regarding
7 Application No. _____.

8 California Public Utilities Commission
9 Ratepayer Representation Branch
10 Water Division
11 505 Van Ness Avenue
12 San Francisco, CA 94104

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of California-American Water Company (U-210-W), a California corporation, RWE Aktiengesellschaft, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GMBH, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Plc, a corporation organized under the laws of the United Kingdom and Wales, and Apollo Acquisition Company, a Delaware Corporation, for an order Authorizing Apollo Acquisition Company to merge with and into American Water Works Company, Inc. resulting in a change of control of California-American Water Company, and for such related relief as may be necessary to effectuate such transaction.

Application No.

DIRECT TESTIMONY OF JAMES MCGIVERN

DIRECT TESTIMONY OF JAMES MCGIVERN

I. INTRODUCTION

Q1: Please state your name and business address.

A. My name is James McGivern. My business address is 1025 Laurel Oak Rd., Voorhees New Jersey, 08043.

Q2: Please state by whom you are employed and what position you hold.

A: I am employed by Thames Water Plc. ("Thames") I am currently the Managing Director – Americas for Thames.

Q3: Please describe your education and work experience.

A: From 1983 through 1986, I attended the University of Reading in England where I earned a Law (LLB Hons) Degree. In 1987 I was admitted as a Solicitor of the Supreme Court of England and Wales working through the College of Law Chancery Lane in London. From 1987 to 1991, I worked as a solicitor in legal practices located in London and Sydney, Australia. I have been employed by Thames since 1991, starting in its legal department where I worked until 1997, eventually rising to head of Commercial Legal Services (International). In 1997, I moved to the business side of the company when I became the Commercial Director responsible for business development activities of all Thames Water Group Companies, both in the United Kingdom and internationally. In 1999, I was promoted to Managing Director – International Business Development. In that position, I was responsible for managing all mergers and acquisitions and, overseas development and coordination of work undertaken by Thames' country directors. Most recently, in 2001, I was appointed Managing Director-Americas. A more detailed curriculum vitae is attached.

Q4: What are your current responsibilities?

A: As Managing Director – Americas, I am responsible for all Thames business interests in North,

1 Central and South America. That responsibility extends to accountability for profit and loss of
2 each operating unit, strategic decisions, regional corporate development, and operational
3 performance.

4
5 Q5: What is the purpose of your testimony in this proceeding?

6 A: In my testimony, I will cover the following topics: 1) a description of the corporate
7 organization of Thames and its affiliates; 2) a description of the transaction that will result in
8 the indirect transfer of control of California-American Water Company ("Cal-Am"); 3) the
9 rationale behind the transaction from the Thames perspective; 4) the benefits of the transaction
10 from the perspective of Cal-Am's ratepayers; 5) an explanation of why Thames will pay a
11 premium for the acquisition of control of Cal-Am, but will not seek rate base treatment of that
12 premium; and 6) a discussion of how the proposed transaction satisfies applicable decisions of
13 the California Public Utilities Commission and the criteria set forth in California Public Utilities
14 Code Section 854(b) and (c) even though they do not by their express terms apply to this
15 transaction.

16
17 **II. DESCRIPTION OF CORPORATE ORGANIZATION OF ACQUIRING ENTITIES.**

18
19 Q6: Please describe the corporate structure of the entities that will acquire control of Cal-Am
20 pursuant to the Agreement and Plan of Merger dated as of September 16, 2001 ("Agreement")

21 A: Upon consummation of the transfer of stock contemplated by the Agreement, Cal-Am's parent,
22 American Water Works Company ("American"), will be a wholly owned subsidiary of Thames
23 Water Aqua Holdings GmbH ("Thames Holdings"). Thames Holdings is the parent corporation
24 of Thames. Thames Holdings is a wholly owned subsidiary of RWE AG ("RWE").

25
26 Q7: Please describe RWE.

27 A: RWE, Germany's fifth largest industrial group, is an international multi-utility service provider
28 with core businesses in electricity, water, gas, waste management and utility-related services.

1 RWE is active in more than 120 countries on all six continents. RWE and its subsidiaries
2 employ approximately 170,000 people, some 69,000 of whom work outside of Germany. As of
3 June 30, 2001, approximately 16,000 of the people employed by the RWE family of companies
4 were based in the United States.

5
6 Q8: Please describe Thames Holdings.

7 A: As mentioned previously, Thames Holdings is a wholly owned subsidiary of RWE. Thames
8 Holdings acts as a holding company for the water and wastewater operations under the RWE
9 corporate umbrella. Thames Holdings has delegated full power and authority to Thames to
10 operate Thames Holdings' current and future subsidiaries, including American upon
11 consummation of the transfer of stock contemplated by the Agreement.

12
13 Q9: Please describe Thames.

14 A: Thames is the largest water/wastewater utility in the United Kingdom and the third largest
15 water/wasterwater services company in the world. Thames provides drinking water and
16 wastewater treatment services to over 43 million people worldwide, including 12 million people
17 in and around the City of London. Thames operated as a public water authority prior to 1989.
18 In the United States, Thames has 880 employees staffing operations or offices in Houston, TX,
19 Pittsburgh, PA, Cincinnati, OH, Stamford, CT, Westfield, NJ and Puerto Rico. Thames
20 acquired E'town Corp. in 2000 and the transaction went very smoothly.

21
22 **III. DESCRIPTION OF THE TRANSACTION AND ITS IMPACT ON CAL-AM.**

23
24 Q10: Please describe the transaction contemplated by the Agreement.

25 A: Under the Agreement, Cal-Am's parent, American, will merge into a corporate shell entity,
26 Apollo Acquisition Company, that is a subsidiary of Thames Holdings created solely to
27 accommodate the acquisition of American. After the transaction, American will be the
28 surviving corporate entity and a wholly owned subsidiary of Thames Holdings. Holders of

1 American common stock prior to the transaction will have their shares converted into the right
2 to receive \$46 per share in cash. Holders of options of American shares prior to the merger will
3 receive an amount in cash equal to the spread between the cash merger consideration, i.e., \$46
4 per share, and the exercise price of their options. The Agreement requires American to redeem,
5 prior to the closing of the transaction, each outstanding share of the Preferred Stock at a
6 redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each
7 outstanding share of the Preference Stock at a redemption price of \$25.00 per share, plus full
8 cumulative dividends thereon. Cal-Am will continue to be the operating public utility providing
9 water utility service under this Commission's jurisdiction in the California service areas where
10 it is presently authorized to do so. Cal-Am will continue to be a wholly owned subsidiary of
11 American.

12
13 Q11: After the transaction, will there be a change in management of Cal-Am as a result?

14 A: No. Operational control of Cal-Am after the transaction will remain as it is today. We
15 recognize that water utility service by its nature is a local business that cannot be properly
16 managed from a great distance. The transaction will not result in changes to the existing
17 management and officers of Cal-Am. Thames does not intend to make any changes to the day-
18 to-day operations of Cal-Am as a result of this transaction. The operating headquarters of Cal-
19 Am will remain in California after the transaction. Thames has extensive experience managing
20 water and wastewater operations throughout the world and expects to provide the benefit of this
21 experience to the capable Cal-Am management.

22
23 Q12: Please describe the impact of the proposed transaction on employees of Cal-Am.

24 A: Without limiting the discretion of Cal-Am's executives to manage their employees, Thames
25 does not anticipate any reduction of employees attributable to the transaction. Accordingly, no
26 changes in local staffing, compensation, or the value of benefits are anticipated to result from
27 the transaction. Upon acquiring control of Cal-Am, all collective bargaining agreements will be
28 honored.

1 Q13: Please describe the impact, if any, on rates paid by Cal-Am's customers caused by the proposed
2 transaction.

3 A: The transaction itself will not result in any increase in rates. Cal-Am will continue to operate
4 under its approved tariffs and rate structures. There are no contemplated changes in the income
5 statement, balance sheet or financial position of Cal-Am as a result of this transaction. As
6 described in further detail below, Cal-Am will not seek an increase in rate base to reflect fair
7 market value of its facilities after the transaction. Cal-Am will continue to assure that its rates
8 are just and reasonable, relying on the management policies and control over operations that it
9 has employed in the past. None of the outstanding debt owed and recorded as liabilities on the
10 books of Cal-Am will be affected by the transaction. The transaction will not cause there to be
11 an additional layer of management overhead allocated to Cal-Am.
12

13 Q14: This transaction appears to be the first acquisition of a California water utility by a multi-
14 national corporation not domiciled in the United States. Should the Commission be concerned
15 about this?

16 A: No. This Commission will retain complete jurisdiction over the rates and services provided by
17 Cal-Am and will have full power to require Cal-Am to meet all of its requirements. The
18 Commission will have access to all books, records and information of Cal-Am and affiliated
19 personnel necessary for it to audit the operation of Cal-Am and any transaction between Cal-
20 Am and any affiliate. Applicants fully acknowledge that this Commission is entitled to
21 information necessary to carry out its legal responsibilities and will cooperate fully in that
22 regard, just as American has. In addition, the cross-border nature of the proposed transaction is
23 simply business as usual in the interlinked economies in which companies operate. California,
24 now the fifth largest economy in the world, is a major exporter to other nations and also imports
25 many goods and services from around the world. Direct foreign investment in California
26 exceeds \$100 billion per year. America has been a net importer of capital since 1972, and its
27 net imports of capital in the year 2000 approximated 15% of its GDP. During the period since
28 1972 the American economy has grown substantially and the imported capital has contributed

1 to that growth. During the last three years there are at least 20 examples of state regulatory
2 authorities approving the acquisition of a regulated utility by a multi-national company. There
3 have been similar changes in other highly regulated industries such as banking and insurance,
4 with no apparent detriment evident. This transaction is simply another example of a company
5 domiciled overseas, but which already does substantial business and has significant investment
6 in America, electing to invest more money in America.

7
8 **IV. THAMES' RATIONALE FOR THE TRANSACTION.**

9
10 Q15: Please describe the rationale behind Thames Holdings desire to acquire American.

11 A: As the third largest provider of water and wastewater services in the world, Thames identified
12 North America as a market in which it should have a larger presence and desires to grow its
13 business there as rapidly as possible. The American properties are attractive for their potential
14 for future growth, their operations in 28 states and 3 Canadian provinces serving approximately
15 12 million people, and the fact that they are well managed. Accordingly, the acquisition of
16 American represents an excellent opportunity to substantially increase Thames' presence in
17 North America consistent with its philosophy of delivering quality service to its customers. Just
18 as it was important for Thames to substantially increase operations in North America, any
19 operator in North America must recognize the importance of a presence in California. For this
20 reason, Cal-Am is an important component of the American acquisition by Thames.

21 **V. BENEFITS OF MERGER FOR CAL-AM'S RATEPAYERS.**

22
23 Q16: Can you provide some examples of the benefits achievable through the acquisition?

24 A: Yes. Cal-Am stands to benefit from the combination of the best practices of both the American
25 system and those of Thames. In terms of customer support and service, we anticipate that Cal-
26 Am customers will benefit in those instances where this partnership delivers the economies and
27 efficiencies that are inherent when two industry leaders share such practical knowledge and
28 experience. The benefits to be realized by Cal-Am and its customers include the following:

Security

Since the tragic events of September 11th, a renewed emphasis on security has been underway throughout the American system. American has been reviewing the security measures in place throughout its system. As a result of this review, Cal-Am is evaluating and implementing new methods and procedures to ensure the security of its operations. Thames, with water operations around the globe, has considerable experience in operating water facilities and systems in regions where security concerns have been a fact of life for some time. For example, Great Britain has been subject to threat by IRA factors for decades, and by Middle Eastern terrorists since the Gulf War. I firmly believe Cal-Am's customers will significantly benefit from the sharing of Thames' extensive experience in developing and implementing comprehensive security measures to protect its customers and employees throughout the world. Thames stands ready and willing to utilize its expertise to enhance Cal-Am's security efforts. Although we will remain separate independent companies until the transaction closes, I look forward to beginning the exchange of best practices as soon as possible. One important area for such an exchange may be within the scope of facility security, a topic that has come to the fore in the aftermath of September 11. American Water, Thames and RWE happen to be the leading stewards of water quality and safety on the two sides of the Atlantic Ocean. We are making security one of the items that our joint integration team focuses on as it moves ahead. The companies pledge their unqualified commitment to a comprehensive security plan not only during the period of transition but also for the years to come.

Environmental Matters

Further, both companies recognize the importance of conducting their operations in an environmentally compatible manner, and as such, actively promote nature conservation on their sites. American and its subsidiaries have a strong environmental track record that will be further enhanced through its association with Thames. American consistently achieves outstanding records of annual compliance with federal and state regulations. American's subsidiaries have received 47 awards from the US Environmental Protection Agency Partnership for Safe Water. Thames is also committed to environmental protection. Numerous

1 Thames sites have received the internationally recognized ISO 14001 Environmental Standard.
2 Thames also works with and supports a wide range of environmental and conservation groups
3 internationally, in part by voluntarily conducting surveys that will assist these groups in
4 implementing biodiversity protection projects. Additionally, Thames utilizes "green energy,"
5 with seventeen combined heat and power plants running bio-gas and two sludge-powered
6 generators. The transaction will allow American and Thames to join together to continue to
7 enhance environmentally-friendly service for the company's customers.

8 **Service Standards**

9 Additionally, in the area of service standards, American Water has earned an enviable
10 reputation throughout the United States. It maintains its facilities in superior condition, and the
11 company continues to ensure safe, reliable and high-quality service to its customers through
12 capital investment in its infrastructure. Similarly, Thames is committed to excellence in its
13 water quality and service standards throughout the world. The Thames track record of
14 compliance with drinking water standards in the UK is now 99.89%, while wastewater effluent
15 compliance is 99.99%. Since privatization in 1989, Thames has invested in excess of \$6 billion
16 in enhancing the quality of its service, including construction of an advanced water treatment
17 system and major renovations of water mains and sewage treatment works. Throughout its
18 system, Thames has established numerous programs to improve the quality of its service,
19 including cost-optimized network renewal and refurbishment and the development of ultra-
20 violet disinfection of drinking water. Thames has every intention of continuing the long and
21 proud service that has come to be expected of American generally, and of Cal-Am in particular.

22 **Customer Service**

23 For many years, both companies have demonstrated their strong commitment to customer
24 service and responsiveness. Cal-Am is dedicated to providing its customers with continuous
25 customer service. Its parent corporation, American, recently opened a state-of-the-art Customer
26 Service Center located in Alton, IL to assist its customers 24 hours a day. Likewise, Thames
27 also has a 24-hour Customer Service Center that has won the UK Utility Industry Achievement
28 Award for Excellence three years in a row. One of the key customer service issues facing the

1 utility industry is integration between the call center and the field service function. Thames
2 water has developed and implemented an integrated approach to service management inquiries
3 by installing the latest information technology for mobile field applications. This provides a
4 direct, real-time link between the system in use in the Customer Service Center and the
5 technicians in the field. This real-time connection delivers critical GIS, work management
6 system data. The customer benefits by having problems ascertained, analyzed, and addressed
7 by field personnel in a more accurate and efficient manner. This new system results in a much
8 more professional and problem-free service and reduces the need for customers to make
9 repeated calls to different parts of the organization. American will take advantage of Thames'
10 experience to implement a similar service, thereby improving service and reducing the time and
11 cost of delivery. Together, these two quality corporations will continue this commitment to
12 have a goal of enhancing customer service by utilizing the best practices of both organizations.

13 **Research and Development**

14 In the area of research and development, American and Thames are both recognized industry
15 leaders. The pooling of our collective expertise will make the combined entity a world leader in
16 this area. Notably, Thames has an annual research and development budget of \$13 million.
17 Thames has developed cutting-edge technologies in all areas of transmission and distribution.
18 In addition, Thames has a technological focus on alternative treatment solutions such as
19 desalination and water reuse projects. This experience will be invaluable in helping Cal-Am
20 meet future challenges and in reducing future capital expenditures as Cal-Am's infrastructure
21 ages.

22 **Community Service**

23 The Merger will positively impact community development in the areas served by Cal-Am.
24 Thames, RWE, and American all share a long history of service in the communities where they
25 operate. For American, financial contributions to the community are usually focused on
26 environmental programs, as well as on initiatives that support the next generation of community
27 leaders. American's involvement goes far beyond financial support. The company routinely
28 involves the personal participation and leadership of employees in important community

1 programs. Thames also has a long and illustrious track record of investing in local
2 communities, particularly in support of the environment and extra-needs customers. Thames
3 supports its employees' involvement in community groups through a payroll program called
4 "Give as you Earn." In this program, Thames matches up to \$3,000 in charitable contributions
5 raised by teams of employees. Additionally, RWE participates in numerous community-
6 oriented projects around the globe, it sponsors a variety of projects in areas ranging from
7 promoting arts and culture to programs modernizing the water infrastructure in developing
8 countries. Companies such as American, RWE, and Thames understand that a good reputation
9 must be earned. They also understand that it takes a great deal of work and commitment to
10 maintain such reputations. Clearly, the philosophy of corporate responsibility resides at the
11 core of the RWE, Thames and American cultures, and this philosophy will continue.
12

13 Q17: Are there other benefits that will result from the proposed transaction?

14 A: Yes. Residents of California who are not currently Cal-Am customers will also benefit. For
15 example, the transaction will better position Cal-Am to enter into operations and management
16 arrangements with municipal water utilities in California, allowing customers of those
17 municipal utilities to benefit from the expertise offered by Cal-Am management. In addition,
18 the acquisition of Cal-Am by Thames will allow even greater participation by Cal-Am in the
19 ongoing water industry consolidation that has been encouraged as a policy matter by the
20 California legislature to resolve problems related to safe and reliable service offerings by small
21 California water and wastewater systems.
22

23 VI. RATE BASE TREATMENT OF ACQUISITION PREMIUM.

24

25 Q18: Will Thames Holdings seek recognition of its acquisition premium in Cal-Am's rate base as
26 permitted under California Public Utilities Code Sections 2718-2720?

27 A: No. Cal-Am will not seek any increase in its rate base as a consequence of the proposed
28 merger.

1
2 Q19: How can Thames Holdings justify the acquisition of American without revaluing Cal-Am's
3 rate base to reflect the acquisition premium associated with the acquisition of Cal-Am?

4 A: There is a nationwide consolidation in the water and wastewater industry in the United States as
5 a result of the substantial capital requirements attendant to infrastructure replacement and
6 continued Safe Drinking Water Act compliance. American has an extensive nationwide
7 presence which positions it uniquely to play a significant role in these consolidations. Growth
8 will be achieved in both the regulated and unregulated business which will justify the premium
9 paid by Thames Holdings for American.

10
11 **VII. EVALUATION OF TRANSACTION RELYING ON SECTION 854 CRITERIA.**

12
13 Q20: Does Thames contend that the criteria set forth in California Public Utilities Commission
14 Sections 854(b) and (c) apply to this transaction.

15 A: No. By their own terms, Sections 854(b) and (c) do not apply to water utility acquisitions.
16

17 Q21: Why are you evaluating the proposed transaction under these criteria?

18 A: Although these sections clearly do not apply by their own terms, Thames Holdings understands
19 that the Commission has stated in previous Section 854 decisions that, although the criteria do
20 not apply to a particular transaction, the Commission may rely on those criteria as part of its
21 evaluation process. Thames Holdings has provided testimony regarding how the proposed
22 acquisition satisfies the Sections 854(b) and (c) criteria.

23 Q22: Applying the Sections 854 (b) and (c) criteria, should the Commission approve the proposed
24 transaction?

25 A: Yes.
26

27 Q23: Please explain how the proposed transaction satisfies each of the criteria specified in Sections
28 854(b) and (c).

1 A: Under those two sections, the Commission is to consider whether a proposed transaction:

- 2 1) Provides short and long term economic benefits to ratepayers;
- 3 2) Equitably allocates its benefits between shareholders and ratepayers;
- 4 3) Does not adversely impact competition;
- 5 4) Maintains or improves the financial condition of the public utility;
- 6 5) Maintains or improves the quality of service to public utility customers;
- 7 6) Maintains or improves the public utility's quality of management;
- 8 7) Is fair and reasonable to the public utility's employees, both union and nonunion;
- 9 8) Is fair and reasonable to the majority of all affected public utility shareholders;
- 10 9) Is beneficial to state and local economies and the communities served by the public utility;
- 11 10) Preserves the jurisdiction of the commission over the public utility's operations; and
- 12 11) Provides mitigation measures for any adverse consequences resulting from the transaction.

13 I will address each of these criteria in order.

14 Short and Long Term Economic Benefits to Ratepayers: As discussed previously, Cal-Am and
15 its parent will immediately and in the long term enjoy improved access to capital. This
16 improved access to capital tends to mitigate the pressure on Cal-Am to raise rates to meet its
17 authorized rate of return. This represents an economic benefit to ratepayers as the company in
18 the future is required to raise capital to fund infrastructure replacements and comply with the
19 Safe Drinking Water Act. In addition, Cal-Am's ratepayers will enjoy short and long-term
20 benefits associated with the sharing of best practices, as already described in my testimony.

21 Equitable Allocation of Benefits: Thames has agreed to forego the step up in rate base
22 authorized by the Public Utilities Code. By Thames foregoing this opportunity, Cal-Am's
23 ratepayers will not have to fund through their rates the acquisition premium associated with this
24 transaction and will receive the benefits of the transaction without being required to pay the
25 cost. In addition, Applicants expect that in the continuing exercise of its jurisdiction over Cal-
26 Am's rates and services, the Commission will insure an equitable allocation of the future
27 benefits of the transaction to ratepayers.

28 Impact on Competition: After consummation of the transaction, Cal-Am will continue to serve

1 the same service area as it does presently. Accordingly, the proposed transaction will not
2 adversely impact competition because competition has not been authorized in Cal-Am's service
3 areas.

4 Impact on Financial Condition: Cal-Am's ultimate parent corporation upon consummation of
5 the transaction will be RWE. RWE's most recent annual report, which was submitted to the
6 Commission as a workpaper with our Application, demonstrates that RWE has very substantial
7 financial resources. RWE's resources will be available to maintain and improve the financial
8 condition of Cal-Am. RWE's debt rating is Aa3 by Moody's and AA- by Standard and Poor's.

9 Impact on Service Quality: Sharing of best practices will improve service quality after
10 consummation of the transaction. Because Cal-Am's management will remain in place, there is
11 no reason to believe the transaction would result in a degradation of service quality. Through
12 the extensive experience Thames management has in operating water utilities throughout the
13 world, Cal-Am's already excellent service quality can only be enhanced through the sharing of
14 best practices.

15 Impact on Management: As discussed previously, Thames has no plans to replace Cal-Am's
16 local management as a result of the transaction. A broader array of training opportunities and
17 career paths will be available to Cal-Am's management. Accordingly, the quality of Cal-Am's
18 management and its ability to recruit outstanding personnel will certainly be maintained or
19 improved. Furthermore, Cal-Am's management will benefit from the experience and resources,
20 including significant research and development, associated with Thames' substantial water
21 utility operations throughout the world.

22 Impact on Employees: The transaction is fair and reasonable to Cal-Am's employees. Thames
23 Holdings has no plans to reduce employment at Cal-Am as a result of the consummation of the
24 transaction. This transaction will not have a detrimental effect on employee compensation and
25 benefits. In fact, the transaction will create greater opportunities for training and development
26 for Cal-Am's employees. As part of a much larger, international operation, the operating
27 utilities' employees will have enhanced career development opportunities. The partnership with
28 Thames offers the potential for international assignments and new challenges that would not

1 have been possible otherwise. This will come about, in large part, through Thames' global
2 resourcing program that is designed to overlay worldwide staffing requirements against one and
3 three year business plans – offering new possibilities where skill sets and job requirements
4 match. Finally, all collective bargaining agreements will be honored.

5 Impact on Shareholders: Cal-Am is wholly owned by American. Prior to consummation, the
6 transaction must be approved by a majority of American's shareholders. Approval of the
7 transaction by a majority of shareholders demonstrates that the proposed transaction is fair and
8 reasonable to shareholders.

9 Benefit to State and Local Economies: The proposed transaction will make it more reasonable
10 for Cal-Am to finance infrastructure improvements to ensure the safe and reliable delivery of
11 water. Local economies will benefit through the economic development related to
12 infrastructure investment. In addition, Cal-Am will continue to be locally managed and will
13 continue to maintain its corporate office in California after consummation of the transaction and
14 participate in a positive way in the communities it serves.

15 Preservation of Commission Jurisdiction: The Commission will retain full regulatory
16 jurisdiction over Cal-Am after consummation of the transaction.

17 Mitigation Measures: I have not identified any adverse impact associated with the proposed
18 transaction on ratepayers, employees, shareholders or the public in general. Therefore, there are
19 no mitigation measures necessary as a condition to approval of the transaction.
20

21 **VIII. CONCLUSION.**

22 Q.24: Explain why you seek the Commission's approval of this transaction on an ex parte or
23 expedited basis.

24 A: The consummation of the transaction and realization of the benefits to be derived from it, as
25 discussed in the Joint Application and my testimony, will be realized more expeditiously if the
26 matter is considered by the Commission as quickly as possible. Every effort has been and will
27 be made to provide the Commission with all of the information and assurances that it needs to
28 enable it promptly to consider the transaction. Finally, this is a transaction that involves

1 publicly traded companies and utility operations across approximately half of the states of this
2 country. Accordingly, there is great benefit to the certainty that will be achieved by an
3 expeditious resolution of this matter for all of the many ratepayers, employees, communities,
4 and shareholders involved. For these reasons, we respectfully request that the Commission
5 process this matter and issue the requested relief on an ex parte or otherwise expedited basis.

6 Q25: Does this conclude your testimony?

7 A: Yes, it does.

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Application No. _____

Exhibit No. _____

Date _____

DIRECT TESTIMONY OF
DANIEL L. KELLEHER

Q1. Please state your name and business address.

A1. My name is Daniel L. Kelleher. My business address is 1025 Laurel Oak Road, Voorhees, NJ.

Q2. By whom are you employed and in what capacity?

A2. I am employed by American Water Works Service Company, Inc. (Service Company) as Senior Vice President. I am responsible for the regulated utility businesses owned by American Water Works Company, Inc. (American) and for the Engineering, Water Quality, Operations and Regulatory Programs support services available to those utilities from the Service Company.

Q3. Please describe your educational background and business experience.

A3. I received a B.S. in Civil Engineering from Northeastern University in 1972. I am a registered professional engineer in the Commonwealth of Pennsylvania. In June 1972, I joined the Service Company as an Engineer. Throughout my career I have held a variety of increasingly responsible positions. In 1980 I became Director of Water Quality Research and Technology responsible for developing and directing the research and application of water treatment technologies throughout the American Water System. In 1985 I became Vice President-Engineering, responsible for administering the comprehensive planning, design, construction and materials management programs of the American Water System subsidiaries nationally. In 1991 I became President of New Jersey-American Water Company, the second largest regulated utility subsidiary in the American Water System, serving more than 363,000 water and wastewater customers, which represents over 1 million people. In February 1999 I assumed my present responsibilities.

Q4. Have you testified before the California Public Utilities Commission before?

A4. Yes. I supplied both direct and rebuttal pre-filed testimony and extensive oral testimony in A. 00-05-015 (Cal-Am acquisition of Citizens assets) and A. 00 05-016 (Cal Am/SJW merger); see D. 00-09-057, application for rehearing denied in D. 00-11-070.

Direct Testimony of Daniel L. Kelleher (Cal-Am)

Q5. What is the purpose of your testimony in this proceeding?

A5. In this testimony I describe the business of American, the substance of the RWE/Thames – American transaction, the factors that motivate American's decision to pursue this transaction, including some of the challenges that the water industry in the United States faces, and I describe some of the benefits that our customers and our operating subsidiaries like Cal-Am can expect from combining the operations of American and Thames Water.

Q6. Please describe the business of American.

A6. American is a publicly-traded Delaware corporation headquartered in Voorhees, N.J. The principal business of American is the investment in and ownership of the common stock of operating water and wastewater utility companies, like Cal-Am, that provide quality water and wastewater service to millions of consumers in the United States and in three Canadian provinces. American and its subsidiaries now have approximately 6,300 employees and provide water, wastewater and other water resource management services to a population of approximately twelve million in 28 states and in three Canadian provinces. In addition, we have recently received the necessary approvals from the states of Arizona, California, Illinois, Indiana, Ohio, and Pennsylvania for our purchase of the water and wastewater assets of Citizens Communications Company. Copies of American's 2000 Annual Report to Shareholders and its most recent proxy statement filed with the Securities & Exchange Commission will be submitted as workpapers to the Commission's Staff in this proceeding.

Q7. What is the role of the Service Company?

A7. The Service Company is a wholly-owned subsidiary of American that provides professional and staff services to American's utility subsidiaries. These services include management, accounting, engineering, finance, water quality, personnel administration and training, human resources, information systems, corporate legal and regulatory services, operations, cash management, rates and revenues, risk management, public and customer communications and other services. The Service Company allows economies of scale afforded through consolidated purchasing of items such as energy, chemicals, materials, supplies and insurance.

Direct Testimony of Daniel L. Kelleher (Cal-Am)

These services are provided at cost to the utility subsidiaries pursuant to agreements between them and the Service Company, which agreements have been approved by the various public utility commissions in the states where the subsidiaries operate, including California.

Q8. Please describe Cal-Am and its business.

A8. Cal-Am is a wholly-owned subsidiary of American and is a part of American's Western Region. American's Western Region includes ownership and operation of water and wastewater utilities in California, New Mexico, Arizona, Texas and Hawaii. Cal-Am is a class A water utility regulated by the California Public Utilities Commission (Commission). Cal-Am provides water service to domestic and industrial customers in six separate systems, including Coronado and a portion of the City of San Diego in San Diego County, six cities and certain unincorporated portions of the Monterey Peninsula in Monterey County, and portions of three cities and unincorporated portions of Los Angeles County and the City of Thousand Oaks in Ventura County. In total, Cal-Am now serves 26 California communities and approximately 110,000 customers. Maps of the Cal-Am service areas are attached as Exhibit 5 to the Joint Application. Cal-Am has recently been authorized to acquire all of the water utility assets of Citizens Utilities Company of California (Citizens) (A. 00-05-015 approved in D. 01-09-057 and on denial of rehearing in D. 01-11-070). Once the Citizens asset acquisition is completed, Cal-Am will also serve the approximately 66,000 customers of Citizens in each of the service areas presently served by Citizens. Maps of the Citizens service areas to be acquired and served by Cal-Am are attached as Exhibit 6 to the Joint Application.

Q9. Please describe the basic terms of the Agreement and of the transaction for which you seek approval.

A9. The basic transaction is a sale of all of American's outstanding common stock to a subsidiary of RWE and the merger of American with an RWE subsidiary. American will be the surviving entity wholly-owned by Thames Water Aqua Holding GmbH (Thames Holdings). Thames Holdings is a wholly owned subsidiary of RWE. The Joint Application by Cal-Am

Direct Testimony of Daniel L. Kelleher (Cal-Am)

and by Thames Holdings, on behalf of itself and its parent holding company, RWE Aktiengesellschaft (RWE), Thames Water Plc (Thames) and Apollo Acquisition Company (Acquisition Corp) seeks approval of the purchase by a subsidiary of RWE of all of the common stock of American pursuant to the Agreement and Plan of Merger (Agreement), dated September 16, 2001, by and among RWE, American, Thames Holdings and Acquisition Corp. Acquisition Corp is a Delaware corporation and wholly owned subsidiary of Thames Holdings created solely for the purpose of implementing the Agreement. The Agreement provides that Acquisition Corp shall be merged with and into American, the parent of Cal-Am, with American to be the surviving post-merger corporation. American will continue its corporate existence under Delaware law as a wholly-owned subsidiary of Thames Holdings. Cal-Am will continue to be a wholly-owned subsidiary of American. A copy of the Agreement is attached as Exhibit 1 to the Application. A schematic diagram of transaction is attached as Exhibit 5 to the Application.

Q10. Please describe the transaction more specifically.

A10. The essence of the Agreement is that each issued and outstanding share of American Common Stock, par value \$1.25 per share (American Common Stock) not owned by Thames Holdings, Acquisition Corp or American, other than shares owned by any holder who invokes appraisal rights under Delaware law, shall be converted into the right to receive cash consideration of \$46.00 per share. As of September 30, 2001, the authorized capital stock of American consisted of (i) 300,000,000 shares of American Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share (the Preferred Stock), (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the Preference Stock), and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value \$35.00 per share (the Preferential Stock). As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding shares held by American as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The Agreement requires American to redeem, prior to the closing of

Direct Testimony of Daniel L. Kelleher (Cal-Am)

the transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of the Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the closing of the transaction, each share of American Common Stock owned by Thames Holdings, Acquisition Corp. or American shall automatically be cancelled and cease to exist and no consideration shall be delivered in exchange therefor.

Q11. What structural changes will result at Cal-Am from the transaction?

A11. None. Cal-Am will continue its corporate existence under California law. It will continue to be the operating public utility providing water utility service under this Commission's jurisdiction in the California service areas where it is presently authorized to do so. There are no contemplated changes in the income statement, balance sheet or financial position of Cal-Am as a result of this transaction. None of the outstanding debt, owed and recorded as liabilities on the books of Cal-Am, will be affected by the Agreement. Unless retired or redeemed in accordance with its terms, all of that outstanding debt of Cal-Am will continue to be liabilities and obligations of Cal-Am. None of Cal-Am's assets will be affected by the Agreement.

Q12. Describe the impact of the transaction upon Cal-Am's operations and its ability to provide adequate, reliable, efficient, safe and least-cost public utility service.

Direct Testimony of Daniel L. Kelleher (Cal-Am)

A12. There will be only positive impacts on Cal-Am's operations. Thames Holdings intends to rely on incumbent local management, and consequently the day-to-day operations of Cal-Am will continue in the same manner as today. Cal-Am will, therefore, continue to have proven management experience along with enhanced capability to provide safe, adequate and reliable service to the public. The transaction will permit the companies to combine resources and expertise that will, among other things, create opportunities for sharing best operating practices, provide increased access to capital markets, provide opportunities for enhanced research and development and increase the opportunities for growth in the water and wastewater markets.

Q13. Will any of Cal-Am's practices or policies change as a result of the transaction?

A13. No changes in the day-to-day operations or management of Cal-Am are anticipated as a result of the transaction. There will be no adverse impacts to Cal-Am's policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance or other matters affecting the public interest or utility operations.

Q14. How will the transaction affect Cal-Am's employees?

A14. The transaction is not expected to have an adverse impact on the employees of Cal-Am. It will not change staffing or compensation, and the value of employee benefits will not be diminished. The transaction will cause no change in any collective bargaining agreement.

Q15. Will the transaction affect any of Cal-Am's obligations under contracts with customers or affiliated interest agreements?

A15. No. Cal-Am will continue to honor all of its customer and regulatory obligations. All affiliated interest agreements approved by the Commission to which Cal-Am is a party, including the Service Company agreement, will remain in effect unless or until such agreements are terminated and/or the Commission approves amended agreements.

Q16. Will the transaction impair Cal-Am's ability to raise necessary capital on reasonable terms or to maintain a balanced capital structure?

Direct Testimony of Daniel L. Kelleher (Cal-Am)

- A16. To the contrary, the transaction is expected to enhance American's and, therefore, Cal-Am's ability to raise necessary capital on reasonable terms and to maintain a reasonable capital structure.
- Q17. Will Cal-Am remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of California public utilities?
- A17. Yes. It will.
- Q18. Will the transaction have an adverse affect on competition in California?
- A18. No. The transaction contemplated by the Agreement will not adversely impact competition because Cal-Am will continue to operate in its current certificated territories under the same conditions that currently exist. There is no competition between Cal-Am and any present operating company or other entity owned by Thames Holdings, which has no water utility operations in California.
- Q19. Will the transaction have any adverse impact on retail customers?
- A19. No. It will not have any adverse impact on the existing rates for Cal-Am. Cal-Am will continue to operate under its approved tariffs and rate structures. There are no contemplated changes in the income statement, balance sheet or financial position or assets of Cal-Am as a result of the transaction. Cal-Am will not seek to recover any costs incurred in accomplishing the transaction. Therefore, Cal-Am's rates will not increase for the costs of the transaction and the ratepayers will receive the benefits without being required to pay the costs.
- Q20. Are there other aspects of Cal-Am's business that may be enhanced by this transaction?

Direct Testimony of Daniel L. Kelleher (Cal-Am)

A20. Yes, several. First, Cal-Am, like other operating companies of American, has since the tragic events of September 11th been conducting a review of security measures in place throughout its system. As a result of that review, new or enhanced security measures and programs have been and will continue to be implemented. Thames Holdings and RWE, with water and other utility operations around the globe, have considerable experience providing utility service to customers in regions where, for some time, security concerns have been a fact of life. I believe that Thames' experience in this regard will benefit American and Cal-Am in developing new and enhancing existing security programs and measures.

Second, American has a long-standing policy to seek out opportunities that have the potential to enhance customer service and value through beneficial acquisitions that strengthen its subsidiaries' financial capability. Cal-Am has over the years acquired a number of small California water systems, many of them in a distressed condition. Some of the benefits that Cal-Am can offer water systems considering an acquisition are: (a) a size and financial strength that should enhance capital attraction and (b) an increased ability to retain and attract professional and technical talent. The transaction will further enhance Cal-Am's position in each of these areas. Specifically, the transaction will provide Cal-Am with greater access to RWE's financial strength and a greater capability to offer career path development and training to its personnel. The transaction should also improve Cal-Am's prospects in attracting acquisition candidates.

Q21. Will the transaction affect Cal-Am's capitalization?

A21. No. As noted above, the transaction itself will not affect Cal-Am's balance sheet. Cal-Am's common equity and long-term debt balances are expected to remain within the ranges approved by this Commission.

Q22. What is the status of approvals required for the transaction?

Direct Testimony of Daniel L. Kelleher (Cal-Am)

A22. The Agreement has been approved by each of the Boards of Directors of Thames Holdings, RWE and American. The Agreement is specifically conditioned upon, among other things, obtaining (a) necessary regulatory approvals, including the approval of this Commission, and (b) the approval of American's shareholders. American's shareholders will vote on that approval at a shareholders' meeting scheduled for January 17, 2002. A copy of the Proxy Statement sent to all shareholders in connection with that shareholder vote was supplied to Commission staff at the time the Joint Application was filed.

Q23. Please describe some of the challenges facing the water industry.

A23. Over the next two to three decades, much of this country's drinking water and wastewater infrastructure will have to be replaced because it is approaching or has already exceeded its useful life. Additional investment in plant and increases in operating and maintenance costs are necessary due to more rigorous standards and other requirements of the Safe Drinking Water Act (SDWA) and Clean Water Act. The SDWA, for example, already requires monitoring and treatment of numerous potential contaminants. However, the SDWA also requires the United States Environmental Protection Agency (USEPA) to identify and establish standards for additional potential contaminants.

A number of reports have sought to identify the massive capital dollars that will be required to address water infrastructure needs over the next 20-30 years. For example, a February 2001 USEPA study, based on 1999 data, estimates infrastructure investment needs nationwide between 1999 and 2019 to be approximately \$150.9 billion to upgrade the infrastructure of the nation's water utilities just to meet requirements of the SDWA. The equivalent figure for California is \$17.5 billion. Those figures do not include other drinking water infrastructure needs, such a replacement of aging transmission and distribution facilities. AWWA has testified before Congress that it believes that the total drinking water infrastructure needs is in the \$325 billion range (in 1998 dollars) in capital investment. A May 2001 AWWA Study, "Reinvesting In Drinking Water Infrastructure," studied 20 utilities and projects that (page 5) "expenditures on the order of \$250 billion over 30 years might be required nationwide for the

Direct Testimony of Daniel L. Kelleher (Cal-Am)

replacement of worn out drinking water pipes and associated structure This figure does not include wastewater infrastructure or the cost of new drinking water standards." That

study made a number of important findings. Two of those findings are (pages 6-7):

Overall, in the 20 utilities studied, infrastructure repair and replacement requires additional revenue totaling about \$6 billion above current spending over the next 30 years. This ranges from about \$550 per household to almost \$2,300 per household over the period. These household impact figures do not include compliance with new regulations or the cost of infrastructure replacement and compliance for wastewater.

* * * *

Household impacts will be two to three times greater in smaller water systems (\$1,100 to \$6,900 per household over 30 years) due to disadvantages of small scale and the tendency for replacement needs to be less spread out over time.

Under any scenario, it is clear that massive infrastructure investment will be needed and increases in operational and maintenance expenses will occur in the future.

Further, in the post-September 11, 2001 world, significant new expenses have been and will necessarily be incurred by water utilities to enhance the security of their water supply infrastructure. The potential cost of that obligation cannot yet be estimated but it will certainly be significant. By way of example, Cal-Am owns and operates in its Monterey Division two dams and reservoirs, two major treatment plants, over thirty-five water supply wells, over one-hundred and thirty booster stations, some eighty-five water storage tanks and many miles of pipeline. Assuring the security of these widely-dispersed and relatively accessible assets is a major undertaking. Similar concerns exist in Cal-Am's other operating divisions. RWE/Thames currently conducts water and other utility operations across the globe, including in many regions where for some time security concerns have been a fact of life. As a result, RWE/Thames has extensive experience in developing and implementing comprehensive security measures to protect its systems and customers throughout the world. Cal-Am and its customers will benefit from that experience and expertise.

Direct Testimony of Daniel L. Kelleher (Cal-Am)

- Q24. Does the basic structure of the water industry pose particular problems to meeting these challenges?
- A24. Yes. The water industry in the United States is highly fragmented. There are approximately 54,000 community water systems in this country, the vast majority of which are small and often financially and technologically nonviable. In addition, the water supply industry is more capital intensive than any of the other public utility services typically regulated by state public utility commissions. The 2001 edition of CA Turner Reports demonstrates the high capital intensity of the water industry compared to other utility sectors. On a net plant basis, water utilities require \$3.53 of investment to produce \$1 of revenue. In contrast, electric utilities require \$1.34 of investment per revenue dollar, gas distribution utilities require \$1.23 of investment per revenue dollar and telephone utilities require \$1.69 per revenue dollar.
- Q25. How have these challenges affected the water industry in the U.S.?
- A25. These and other challenges have led to an ongoing restructuring of the water industry through consolidations, mergers and acquisitions, as well as increasing interest in privatization of government-owned systems through acquisitions or operations and maintenance contracts, and other cooperative, partnering arrangements between government and investor-owned systems. These challenges and opportunities have also led to significant investment in U.S. water companies by foreign corporations such as by Thames Water in Elizabethtown Water Co., by the French company, Suez Lyonnaise des Eaux, in United Water Resources, in Aquarion by the British company Kelda, and by NUON, a Dutch company, in Utilities, Inc.
- Q26. What are the implications of these challenges for the U.S. water industry?
- A26. These infrastructure requirements and increasing quality standards and security enhancement issues result in severe pressure on the water industry to increase its ability to attract capital as well as to increase its technical and operating capabilities. There is also an obligation on the part of water service providers to do so in a manner that minimizes costs to consumers, consistent with the quality service they have a right to expect.

Direct Testimony of Daniel L. Kelleher (Cal-Am)

A 1993 NRRI Report emphasized the responsibility of both water utilities and regulators to facilitate achievement of long-term quality service in a least cost manner:

“The changing cost profile of the water utility industry marks a ‘coming of age’ for the industry and a new era in water utility regulation. All water utilities, regardless of ownership structure or size, must begin to plan how they will meet additional revenue requirements. Strategic planning, therefore, should become a priority for water utilities and water utility regulators.”

(Meeting Water Utility Revenue Requirements: Financing and Ratemaking Alternatives, NRRI November 1993)

American’s policy of pursuing consolidation through mergers and acquisitions has been integral to its strategic planning for the future and essential to fulfill its responsibilities to its customers and shareholders.

Q27. Does American have an overall acquisition strategy?

A27. Yes. American has had a long-standing policy to seek out opportunities that have the potential to enhance customer and shareholder value through beneficial acquisitions that will strengthen the financial capability of the existing subsidiaries and the acquired systems so that both will be better able to meet their public service obligations and maintain future financial viability.

Q28. Why has American pursued a policy of acquisitions?

A28. American’s motivations are essentially twofold. First, faced with huge capital investment requirements resulting from infrastructure replacement needs and constantly expanding water quality and other standards, and now with enhanced security needs, achievement of more effective economies of scale through consolidations resulting from mergers and acquisitions has been absolutely essential to achievement of American’s goal of providing high quality water service to customers in a least cost manner. Second, the value brought to customers is necessary to protect and increase long-term shareholder value. These customer and shareholder goals are not only consistent with each other, they are also mutually dependent. One goal cannot be achieved without achieving the other.

Direct Testimony of Daniel L. Kelleher (Cal-Am)

Q29. How will the transaction further these goals and benefit customers?

A29. First, the combination will permit selection of the best management practices and other skills from each company so that the whole will operate more efficiently than each of the companies could standing alone.

Second, the addition of Thames and RWE will put us in a better position to continue to participate in the ongoing water industry consolidation. Such consolidation will better position Cal-Am to expand and accelerate the acquisition of or assistance to small California water and wastewater systems.

Third, our association with RWE will enhance the ability to fund increasing infrastructure needs driven by aging plant, technology changes and increasingly rigorous water quality, security and other requirements at a more economical cost and thereby contribute to rate stability.

Fourth, RWE will bring to American and Cal-Am the benefits of its long experience in addressing issues of security of its resources to protect our public water supplies.

Fifth, employees of Cal-Am will have greater opportunities for professional development and career enhancement. Being part of a larger, international operation our employees will also have access to international assignments and challenges not otherwise available.

Q30. Explain why you seek the Commission's approval of this transaction on an ex parte or expedited basis.

A30. The consummation of the transaction and realization of the benefits to be derived from it, as discussed in the Joint Application and this testimony, will be realized more expeditiously if

Direct Testimony of Daniel L. Kelleher (Cal-Am)

the matter is considered by the Commission as quickly as possible. Every effort has been and will be made to provide the Commission with all of the information and assurances that it needs to enable it to promptly consider the transaction. Finally, this is a transaction that involves publicly traded companies and utility operations across approximately half of the states of this Country. Accordingly, there is great benefit to the certainty that will be achieved by an expeditious resolution of this matter for all of the many ratepayers, employees, communities, and shareholders involved. For these reasons, we respectfully request that the Commission process this matter and issue the requested relief on an ex parte or otherwise expedited basis.

Q31. Does that conclude your direct testimony?

A31. Yes it does.

Proposed Joint Application Schedule

ILLINOIS

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

**ILLINOIS-AMERICAN WATER COMPANY,)
and THAMES WATER AQUA HOLDINGS,)
GmbH)**

Docket No. _____

**Joint Application For Approval Of Proposed)
Reorganization And Change In Control Of)
Illinois-American Water Company Pursuant To)
Section 7-204 Of The Illinois Public Utilities Act.)**

VERIFIED APPLICATION

Applicant, Illinois-American Water Company ("Illinois-American"), on behalf of itself and its parent holding company American Water Works Company, Inc. ("American"), and Applicant Thames Water Aqua Holdings GmbH ("Thames Holdings"), on behalf of itself and its parent holding company RWE Aktiengesellschaft ("RWE") (collectively "Joint Applicants"), by way of this Application filed pursuant to Section 7-204 of the Illinois Public Utilities Act ("PUA"), respectfully request that the Illinois Commerce Commission ("Commission") approve the transaction described in an Agreement and Plan of Merger ("Agreement"), dated September 16, 2001, by and among RWE, American, Thames Holdings, and Apollo Acquisition Company ("Acquisition Corp."), a Delaware corporation and wholly owned subsidiary of Thames Holdings created for the purposes of implementing the Agreement. The Agreement provides that Acquisition Corp. shall be merged with and into American, the parent of Illinois-American, subject to obtaining certain regulatory approvals and other conditions. American shall be the surviving corporation and shall continue its corporate existence under Delaware law.

Illinois-American will continue to be a subsidiary of American. A copy of the Agreement is attached as Exhibit A.

In support of this Verified Application, the Joint Applicants state as follows:

THE COMPANIES INVOLVED

1. Applicant Illinois-American, a corporation of the State of Illinois, with its principal office located in Belleville, Illinois, is a regulated public utility within the meaning of the PUA, organized and operating under the laws of the State of Illinois.
2. Pursuant to an affiliated interest agreement ("Services Agreement") approved by the Commission in Docket 88-0303, Illinois-American receives administrative, engineering, financial, human resources, certain management, information systems, risk management, water quality, and other services from American Water Works Service Company, Inc. ("AWW Service"), which is headquartered in Voorhees, New Jersey.
3. American, a corporation of the State of Delaware, with its principal office located at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, is a publicly traded company, organized and operating under the laws of the State of Delaware. American owns the common equity of Illinois-American and AWW Service.
4. Applicant Thames Holdings, with its principal U.S. offices to be located at 1101 Laurel Oak Rd., Voorhees, New Jersey, is a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of RWE, a company organized under the laws of the Federal Republic of Germany, with its principal office located at Opernplatz 1, 45128, Essen, Germany. A description of RWE is attached as Exhibit B.
5. Thames Water PLC ("Thames") is a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London,

United Kingdom. Thames operates the water division of Thames Holdings bringing to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to over 43 million people throughout the United Kingdom, Australia, China, Indonesia, Malaysia, Puerto Rico, the United States, Turkey, and other countries. A description of Thames is attached as Exhibit C.

THE AGREEMENT

6. Under the terms of the Agreement, American will become a wholly-owned subsidiary of Thames Holdings which, in turn, is a wholly-owned subsidiary of RWE.

7. Illinois-American will continue to be a subsidiary of American and will continue to exist as an Illinois public utility corporation subject to the jurisdiction and regulation of the Commission. AWW Service also will continue to be a subsidiary of American.

8. The Agreement provides that each issued and outstanding share of Common Stock, par value \$1.25 per share, of American ("American Common Stock") not owned by Thames Holdings, Acquisition Corp. or American, other than shares owned by any holder who invokes appraisal rights under Delaware law, shall be converted into the right to receive cash as consideration in the amount of \$46.00 per share.

9. The current authorized capital stock of American consists of (i) 300 million shares of American Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"), (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"), and (iv) 3 million shares of Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

10. As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding shares held by American as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The Agreement requires American to redeem, prior to the closing of the transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of the Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the closing of the transaction, each share of American Common Stock owned by Thames Holdings, Acquisition Corp. or American shall automatically be cancelled and cease to exist and no consideration shall be delivered in exchange therefor.

11. In furtherance of the Agreement, RWE will cause Thames Holdings to have funds sufficient to consummate the transaction.

12. None of the outstanding debt owed and recorded as liabilities on the books of Illinois-American will be affected by the Agreement. Unless retired or redeemed in accordance with its terms all of that outstanding debt will continue to be liabilities and obligations of Illinois-American.

13. Illinois-American will continue to adhere to its tariffs (as they may, from time to time, be revised) and to honor all its customer and regulatory obligations. All affiliated interest agreements approved by the Commission to which Illinois-American is a party will remain in effect unless or until the agreements terminate and/or the Commission approves amended agreements. Accordingly, after the merger, Illinois-American will continue to receive services from AWW Service.

14. The Agreement has been approved by the Boards of Directors of Thames Holdings, RWE, and American.

15. The Agreement is conditioned upon, among other things, obtaining (i) necessary regulatory approvals, including the approval of the Commission, and (ii) the approval of American's shareholders.

IMPACT OF THE TRANSACTION

16. The transaction contemplated by the Agreement will not diminish Illinois-American's ability to provide adequate, reliable, efficient, safe and least-cost public utility service. Thames Holdings intends to retain Illinois-American's incumbent local management. Consequently, Illinois-American will continue its current high-quality service. As more particularly described below, the merged entity, by virtue of its greater capital resources, will be better positioned to meet future demands and to ensure that high quality service is maintained.

17. The transaction involving Thames Holdings and American will have no adverse impact on the public interest. To the contrary, the association of these two companies will benefit the customers and employees of Illinois-American and will promote the public interest by combining resources and expertise that will create opportunities for sharing best operating practices.

18. The transaction will permit Illinois-American to utilize Thames' experience and expertise in safeguarding its water systems. Thames, with water operations around the globe, has considerable experience in operating water facilities and systems in regions where security concerns have been a fact of life for some time. Illinois-American, and ultimately its customers, will significantly benefit from the sharing of Thames' extensive experience in developing and implementing comprehensive security measures to protect its customers throughout the world.

19. The need to comply with increasingly stringent water quality and environmental standards, while also rehabilitating and replacing aging water infrastructure, has created substantial demands for capital investment by water utilities. Although American has been extremely successful in raising needed funds, the financial resources and backing of RWE/Thames will enhance Illinois-American's access to capital markets. Enhanced access to capital markets at reasonable costs will be a benefit to Illinois-American and its customers. Greater access to capital will increase Illinois-American's ability to replace aging infrastructure and implement new technology.

20. The association with Thames will further enhance American and its subsidiaries' strong environmental track records. The transaction enhances Illinois-American's ability to respond to environmental challenges. Backed by RWE's annual research and development budget, Thames is conducting several programs in the area of renewable energy. Such programs include the use of solar power, fuel cell technology, wind power and local heat and power generating systems, which offer the potential for ameliorating the continuing increase in the cost of electricity used in the distribution and treatment of water. The goal of Thames and American is to facilitate new and expanded environmentally friendly programs that will benefit Illinois-American and its customers.

21. The Merger will allow a sharing of research and development between American and Thames. American is recognized as an industry leader in the identification and detection of pathogenic organisms, cryptosporidium being a prime example. Thames enjoys a comparable reputation in the area of water quality monitoring and treatment. The combination of these research and development capabilities offers potential benefits to the customers of Illinois-American.

22. The transaction contemplated by the Agreement will have no negative impact on the employees of Illinois-American. The transaction is predicated on growth through achieving accelerated business development activity in regulated and non-regulated businesses. Further, no overlap exists between Thames' current U.S. operations and Illinois-American's operations. The transaction will cause no changes in local staffing or compensation, and the value of employee benefits will not be reduced. In fact, the day-to-day operations and management of Illinois-American are not expected to change as a result of the transaction.

23. The transaction will benefit Illinois-American's employees by providing increased opportunities for training and career development. Like American, Thames firmly believes in equipping its employees with the skills and tools needed to perform at the highest possible level.

24. The transaction will result in no adverse changes in Illinois-American's policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.

25. The transaction will not result in the subsidization of non-utility activities by Illinois-American nor its customers. Illinois-American does not engage in a significant level of non-utility activity. To the extent that Illinois-American may engage in such activities in the future, it will continue to maintain its books and records in such a manner as to fairly and reasonably allocate costs and facilities between utility and non-utility activities, so as to allow the Commission to identify those costs and facilities that are properly included for ratemaking purposes.

26. The transaction will not impair Illinois-American's ability to raise necessary capital on reasonable terms and to maintain a reasonable capital structure.

27. Illinois-American will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities.

28. The transaction contemplated by the Agreement will not adversely impact competition because Illinois-American will continue to operate in its current certificated service territories under the same market conditions that currently exist. Due to geographical separation, there is no competition between Illinois-American and any present operating company or other entity owned by Thames Holdings. Indeed, Thames Holdings has no Illinois operations.

29. The transaction will have no adverse impact on existing Illinois-American rates. Illinois-American will continue to operate under its existing tariffs and rate structures (until such time as such tariffs and rate structures are revised in accordance with Illinois law). This transaction will cause no changes in the balance sheet or financial position of Illinois-American.

30. American has a long history of service in the communities where it operates. The philosophy of corporate responsibility to the communities served resides at the core of the RWE, Thames, and American cultures, and this philosophy will continue.

JURISDICTION AND REGULATORY APPROVALS

31. This Application is being filed pursuant to Section 7-204 which requires Commission approval for transactions that result:

in a change in ownership of a majority of the voting capital stock of an Illinois public utility; or the ownership or control of any entity which owns or controls a majority of the voting capital stock of a public utility; or by which 2 public utilities merge, or by which a public utility acquires substantially all of the assets of another public utility . . .

220 ILCS 5/7-204(a). In considering a request for approval pursuant to Section 7-204, the Commission is required to find and, for the reasons stated above, the Commission should find in this proceeding, that:

(a) the transaction will not diminish Illinois-American's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;

(b) the transaction will not result in unjustified subsidization of non-utility activities by Illinois-American or its customers;

(c) costs and facilities are fairly and reasonably allocated between utility and any non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by Illinois-American for ratemaking purposes;

(d) the transaction will not significantly impair Illinois-American's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;

(e) Illinois-American will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;

(f) the transaction is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction;

(g) the transaction is not likely to result in any adverse rate impacts on retail customers.

32. Section 7-204(c) of the PUA further requires the Commission to rule on: (1) the allocation of any savings resulting from the proposed transaction; and (2) whether Joint Applicants should be allowed to recover any costs incurred to accomplish the transaction, and if so, the amount of costs eligible for recovery and how such costs will be allocated.

33. By this Joint Application, Thames Holdings does not seek recovery of any acquisition premium or transaction costs to accomplish the proposed transaction, and Thames Holdings does not intend to pass such costs through to Illinois-American. Therefore, under Section 7-204(c), the Commission should rule that no costs incurred in accomplishing the transaction are recoverable in rates. Moreover, since Thames Holdings does not currently maintain operations in Illinois, Thames Holdings does not expect synergy savings to result in

Illinois from the proposed transaction. Accordingly, under Section 7-204(c), the Commission should rule that savings reflected in future rate case test years, if any, should be allocated in full to customers.

34. The transaction is not expected to affect Illinois-American's capitalization. As Exhibit J shows, during 2003, the first calendar year following closing of the transaction, Illinois-American's projected common equity and long-term debt ratios are projected to be 44.77% and 55.13%, respectively.

35. Upon closing of the transaction, the capital structure of Illinois-American will be consistent with the provisions of Section 6-103 of the PUA.

NOTICE AND COMMUNICATIONS

36. All correspondence and communications to this proceeding should be addressed to the following:

On behalf of Thames Holdings and RWE:

Stephen J. Mattson
Angela D. O'Brien
MAYER, BROWN & PLATT
190 South LaSalle Street
Chicago, IL 60603-3441
Phone: 312/782-0600
Fax: 312/701-7711

On behalf of Illinois-American and American:

Boyd J. Springer
JONES, DAY, REAVIS, & POGUE
77 West Wacker
Chicago, IL 60601-1692
Phone: 312/782-3939
Fax: 312/782-8585

37. Consummation of the transaction and the benefits to be derived therefrom, as discussed above, will be realized more expeditiously if the matter is considered by the

Commission as quickly as possible. Every effort has been and will be made to provide the Commission with all the information and assurances that it needs to promptly consider the transaction. For these reasons, Joint Applicants respectfully request that the Commission process this matter and issue the requested relief on an expedited basis.

SUPPORTING DATA, INFORMATION AND MATERIAL

38. To expedite the Commission's review of the proposed transaction, the Joint Applicants submit, along with the Application, an Appendix containing the following data, information, and material.¹

(a) A copy of the Agreement dated September 16, 2001, by and among RWE, American, Thames Holdings, and Acquisition Corp, attached as Exhibit A;

(b) A description of RWE, attached as Exhibit B;

(c) A description of Thames, attached as Exhibit C;

(d) Income statements and balance sheets for Illinois-American for the year ending December 31, 2000 are set forth in Exhibit D;

(e) A 2000/2001 annual report for RWE is set forth in Exhibit E;

(f) The certificated service areas for Illinois-American are depicted on the map attached as Exhibit F;

(g) A diagram showing the corporate structure of Thames Holdings as it will exist after the Acquisition is attached as Exhibit G;

(h) As noted above, American is the parent company of Illinois-American. Illinois-American has no subsidiaries. A complete listing of the companies with which Illinois-American is affiliated as of the date hereof appears in Exhibit H;

(i) Exhibit I includes a copy of the Services Agreement between Illinois-American and American Water Works Service Company, Inc. If other affiliated interest agreement(s) is (are) proposed in the future, Illinois-American will submit such agreements for any required approval;

¹ Illinois-American was a subsidiary of another corporation (American) before August 15, 1989, the effective date of Section 7-204A of the Act. Accordingly the requirements of Section 7-204A are not applicable to the transaction proposed herein. 220 ILCS 5/7-204A. The above-listed material is supplied, however, for the convenience of the Commission and Staff in reviewing this Application.

(j) Aside from data and information used by the parent in assembling consolidated financial statements, for normal business purposes or under approved affiliated interest agreements, there are no current plans for transfer or use by an affiliate of assets or information now owned or in the possession of Illinois-American. If plans for such transfer or use are developed in the future, the proposed transaction and terms and conditions thereof will be submitted to the Commission for approval;

(k) The most recent five-year forecast showing the capital requirements of Illinois-American is attached as Exhibit J. The forecast includes for each year following the transaction: (i) projected capital requirements; (ii) sources of capital; (iii) the projected capital structure; and (iv) the assumptions underlying the information included in the forecast;

(l) A credit rating report for both RWE and Thames is attached as Exhibit K;
and

(m) Copies of filings seeking approvals related to the transaction made with other state agencies and the federal government will be provided when available.

WHEREFORE, Joint Applicants respectfully request:

A. That the Commission enter an Order pursuant to Section 7-204 of the PUA:

(i) approving the transaction described in the Agreement and Plan of Merger by and among RWE, American, Thames Holdings, and Acquisition Corp. dated as of September 16, 2001; and
(ii) authorizing Thames Holdings, RWE and any other entity owned or controlled, directly or indirectly, by Thames Holdings and managed by Thames to acquire control of Illinois-American and American; and (iii) determining that no further approval of the Commission is required with regard to the Agreement;

B. That the Commission expedite the processing of this request in order to permit the transaction to proceed as soon as reasonably possible given the desire to close the transaction and proceed to achieve the benefits of the transaction which, although not required by law for regulatory approval of such transactions, are likely to be achieved; and

C. That the Commission grant such other and further relief as the Commission may deem appropriate or necessary to effectuate the terms of the Agreement.

Respectfully submitted,

Stephen J. Mattson
Angela D. O'Brien
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Counsel on behalf of Thames Holdings and RWE.

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Fax: 312/782-8585

Counsel on behalf of Illinois-American
and American.

VERIFICATION

JAMES MCGIVERN, being duly sworn according to law, upon his oath, deposes and says:

1. I am the _____ of Thames Water Aqua Holdings GmbH and am authorized to make this Verification on behalf of Thames Holdings.

 2. I have read the contents of the foregoing Application and hereby verify that the statements therein contained are true and accurate to the best of my knowledge and belief.
- _____

Sworn to and subscribed
before me this ____ day
of _____, 2001

Notary Public

VERIFICATION

TERRY L. GLORIOD, being duly sworn according to law, upon his oath, deposes and says:

1. I am the President of Illinois-American Water Company and am authorized to make this Verification on behalf of Illinois-American Water Company.
2. I have read the contents of the foregoing Application and hereby verify that the statements therein contained are true and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of _____, 2001

Notary Public

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

ILLINOIS-AMERICAN WATER COMPANY,)
and THAMES WATER AQUA HOLDINGS,)
GmbH)

Docket No. _____

Joint Application For Approval Of Proposed)
Reorganization And Change In Control Of)
Illinois-American Water Company Pursuant To)
Section 7-204 Of The Illinois Public Utilities Act.)

DIRECT TESTIMONY

OF

TERRY L. GLORIOD

TABLE OF CONTENTS

	Page
WITNESS IDENTIFICATION AND BACKGROUND	1
PURPOSE OF TESTIMONY	2
THE APPLICATION.....	3
THE COMPANIES INVOLVED	5
IMPACT ON OPERATIONS.....	7
CAPITAL STRUCTURE	16
STATUS OF REQUIRED APPROVALS.....	16
SUPPORTING DATA, INFORMATION AND MATERIAL	17

DIRECT TESTIMONY

OF

TERRY L. GLORIOD

WITNESS IDENTIFICATION AND BACKGROUND

Q. Please state your name and business address.

A. My name is Terry L. Gloriod, and my business address is Illinois-American Water Company ("Illinois-American" or "IAWC"), 300 North Water Works Drive, P.O. Box 24040, Belleville, IL 62223.

Q. Mr. Gloriod, what is your present position?

A. I am President of Illinois-American Water Company and Iowa-American Water Company.

Q. As President, what are your responsibilities?

A. As President, I am responsible for maintaining the companies' financial health; enhancing the operating reliability and efficiency of the companies; and for assuring that all functions (e.g., planning, engineering, construction, production, distribution, customer service, accounting, and human resources) are carried out in compliance with all local, state and federal laws and regulations, and standards of good business practice. I am also ultimately responsible for assuring that we meet customers' needs.

23 **Q. Please discuss your educational and business background.**

24 A. I was named President of Illinois-American Water Company on April 1, 1999. Prior to
25 that time, I was Vice President, Operations of the Continental Water Company and
26 Chairman of the Board of Continental's subsidiary utilities in Missouri, Illinois, Indiana,
27 and New York. I worked for Continental Water or its subsidiaries since June, 1969. I
28 hold a Bachelor of Science degree from Washington University, St. Louis. I am a
29 registered Professional Engineer in Missouri. I am a past Director and Vice President of
30 the American Water Works Association. I am a past Member of the Board of Trustees of
31 the American Water Works Association Research Foundation, and former chair of its
32 Research Advisory Council. I chair the Regulatory Committee of American Water
33 Works Association's Water Utility Council, and the government Relations Committee of
34 the National Association of Water Companies.

35
36 PURPOSE OF TESTIMONY

37 **Q. What is the purpose of your testimony in this proceeding?**

38 A. The purpose of my testimony is to describe the transaction that is the subject of this
39 proceeding and the companies involved. I will also address the impact of the transaction,
40 or lack thereof, on Illinois-American and certain other matters.

THE APPLICATION

42
43 **Q. Are you familiar with the Verified Application filed in this matter?**

44 A. Yes, I am. In the Verified Application, Illinois-American, on behalf of itself and its
45 parent holding company American Water Works Company, Inc. ("American"), and
46 Applicant Thames Water Aqua Holdings GmbH ("Thames Holdings"), on behalf of itself
47 and its parent holding company RWE Aktiengesellschaft ("RWE") (collectively "Joint
48 Applicants"), request that the Illinois Commerce Commission ("Commission") approve
49 the transaction described in an Agreement and Plan of Merger ("Agreement"), dated
50 September 16, 2001, by and among RWE, American, Thames Holdings, and Apollo
51 Acquisition Company ("Acquisition Corp."), a Delaware corporation and wholly owned
52 subsidiary of Thames Holdings created for the purposes of implementing the Agreement.
53 In the transaction ("transaction"), Acquisition Corp. will be merged with and into
54 American, the parent of Illinois-American. American will be the surviving corporation
55 and will continue its corporate existence under Delaware law. A copy of the Agreement
56 is included in the Appendix to Testimony as Exhibit A.

57
58 **Q. What regulatory standards should be applied by the Commission in reviewing the**
59 **Application?**

60 A. The Application seeks approval of the transaction under Section 7-204 of the Illinois
61 Public Utilities Act ("PUA") 220 ILCS 5/7-204. In approving the transaction,
62 Section 7-204(b) requires that the Commission find that:

- 63 1. the transaction will not diminish the utility's ability to
64 provide adequate, reliable, efficient, safe and least-cost public utility
65 service;

66 2. the transaction will not result in the unjustified
67 subsidization of non-utility activities by the utility or its customers;

68 3. costs and facilities are fairly and reasonably allocated
69 between utility and non-utility activities in such a manner that the
70 Commission may identify those costs and facilities which are properly
71 included by the utility for ratemaking purposes;

72 4. the transaction will not significantly impair the utility's
73 ability to raise necessary capital on reasonable terms or to maintain a
74 reasonable capital structure;

75 5. the utility will remain subject to all applicable laws,
76 regulations, rules, decisions and policies governing the regulation of
77 Illinois public utilities;

78 6. the transaction is not likely to have a significant adverse
79 effect on competition in those markets over which the Commission has
80 jurisdiction;

81 7. the transaction is not likely to result in any adverse rate
82 impacts on retail customers.

83

84 **Q. Have the Joint Applicants presented evidence addressing the regulatory standards?**

85 **A.** Yes. The Commission should make the findings required by Section 7-204(b) for the
86 reasons that I and Mr. Carmedy discuss. Mr. Carmedy will also address the provisions of
87 Section 7-204(c).

88

THE COMPANIES INVOLVED

89
90 **Q. Would you discuss the American system companies involved?**

91 A. Yes. American, a corporation of the State of Delaware, with its principal office located
92 in Voorhees, New Jersey (1025 Laurel Oak Road, Voorhees, NJ 08043), is a publicly
93 traded company, organized and operating under the laws of the State of Delaware.
94 Among American's subsidiaries is Illinois-American. The common stock of American is
95 publicly traded on the New York Stock Exchange. American's subsidiaries provide
96 water, wastewater utility service and other water resource management services to
97 approximately 12 million people in 28 states and Canada. American is the largest
98 investor-owned water utility holding company in the United States.

99 Pursuant to an affiliated interest agreement approved by the Commission in
100 Docket 88-0303 ("Services Agreement"), Illinois-American receives administrative,
101 engineering, financial, human resources, certain management, information systems, risk
102 management, water quality, and other services from American Water Works Service
103 Company, Inc. (the "Service Company"), a wholly-owned subsidiary of American. The
104 Service Company is headquartered in Voorhees, New Jersey (1025 Laurel Oak Road,
105 Voorhees, NJ 08043). The Services Agreement is included in the Appendix to
106 Testimony as Exhibit I.

107 Illinois-American is a corporation duly organized and existing under and by virtue
108 of the laws of the State of Illinois and is a public utility within the meaning of the Act.
109 Illinois-American has its principal office in Belleville, Illinois, and presently provides
110 water utility service to approximately 220,000 customers in 87 communities in Illinois.
111 The Company has three Divisions: the Northern Division, which includes the Peoria,

112 Pekin and Lincoln operating Districts; the Southern Division, which includes the
113 Interurban, Cairo and Alton operating Districts; and the Eastern Division which includes
114 the Champaign, Streator, Sterling and Pontiac operating Districts. Illinois-American is a
115 subsidiary of American. In Docket 00-0476, the Commission approved the acquisition
116 by Illinois-American of the water/wastewater assets of Citizens Utilities Company of
117 Illinois ("CUCI"). The asset acquisition transaction, however, has not yet closed. CUCI
118 is a public utility within the meaning of the Act, with its principal office in Woodridge,
119 Illinois. CUCI operates 26 service districts in Cook, Du Page, Will, Kane, Kendall, and
120 Grundy Counties, Illinois. CUCI provides water services to approximately 35,000
121 customers and wastewater collection and/or treatment to nearly 32,000 customers. After
122 closing, the areas and water/wastewater customers of CUCI will be served by
123 Illinois-American.

124 THE AGREEMENT

125 **Q. Please discuss the Agreement.**

126 A. Under the Agreement, American will become a wholly-owned subsidiary of Thames
127 Holdings which, in turn, is a wholly-owned subsidiary of RWE. Illinois-American will
128 continue to be a subsidiary of American and will continue to exist as an Illinois public
129 utility corporation subject to the jurisdiction and regulation of the Commission. The
130 terms of the Agreement are described in detail by Mr. Carnedy.

IMPACT ON OPERATIONS

132

133 **Q. Will the transaction diminish Illinois-American's ability to provide adequate,**
134 **reliable, efficient, safe and least-cost public utility service?**

135 **A.** No. As Mr. Carmedy explains, Thames Holdings intends to rely on incumbent local
136 management, and consequently the day-to-day operations of Illinois-American will
137 continue as planned today with no adverse impact on customer service. As a subsidiary
138 of American, Illinois-American has consistently provided high-quality service to its
139 customers. The transaction will permit the companies to combine resources and expertise
140 that will, among other things, create opportunities for sharing best operating practices;
141 increase access to capital markets; increase opportunities for growth in the water and
142 wastewater market; and enhance research and development. Thus, the transaction will
143 enhance Illinois-American's ability to address difficult challenges facing the water
144 industry.

145

146 **Q. Please discuss the challenges you refer to.**

147 **A.** Over the next two decades, much of this country's drinking water and wastewater
148 infrastructure will have to be replaced because it is approaching or has already exceeded
149 its useful life. Additional investment in plant and increases in operating and maintenance
150 costs are necessary due to more rigorous standards and other requirements of the Safe
151 Drinking Water Act (SDWA) and Clean Water Act . The SDWA, for example, already
152 requires monitoring and treatment of numerous potential contaminants. However, the
153 SDWA also requires the United States Environmental Protection Agency (USEPA) to
154 identify and establish standards for additional potential contaminants.

155 A February, 2001 USEPA study, based on 1999 dollars, estimated infrastructure
156 investment needs nationwide over the next 20 years to be approximately \$150.9 billion.²
157 A May, 2001 study by the American Water Works Association estimates that investment
158 of approximately \$250 billion over the next 30 years will be necessary to meet
159 infrastructure replacement needs and comply with SDWA requirements. Under any
160 scenario, it is clear that massive infrastructure investment will be needed and increases in
161 operational and maintenance expenses will occur in the future.

162 Further, in the post-September 11, 2001 world, significant expenses have been
163 and will necessarily be incurred by water utilities to enhance the security of their water
164 supply infrastructure. The potential cost of that enhancement cannot yet be estimated but
165 it will certainly be significant. Assuring the security of Illinois-American's widely-
166 dispersed and relatively accessible assets is a major undertaking. RWE/Thames currently
167 conducts water operations across the globe, including in many regions where for some
168 time security concerns have been a fact of life. As a result, RWE/Thames has extensive
169 experience in developing and implementing comprehensive security measures to protect
170 its systems and customers throughout the world. American and its customers will benefit
171 from that experience and expertise.

172
173 **Q. Does the basic structure of the water industry pose particular problems to meeting**
174 **these challenges?**

² An earlier study by an organization made up of primarily governmental water and wastewater service providers called Water Infrastructure Network ("WIN") estimated that \$480 billion would be necessary to replace aging water infrastructure over 20 years (and another \$460 billion for wastewater).

175 A. Yes. The water industry in the United States is highly fragmented. There are
176 approximately 54,000 community water systems in this country, the vast majority of
177 which are small and often financially and technologically nonviable. In addition, the
178 water supply industry is more capital intensive than any of the other public utility
179 services typically regulated by state public utility commissions. The capital intensive
180 nature of water utilities as compared to other types of utilities is shown by data from the
181 2001 C.A. Turner Reports:

	<u>Net Plant per Revenue Dollar</u>
Water	\$3.53
Electric	1.34
Gas District	1.23
Telephone	1.69

182

183 **Q. What are the implications of the challenges you discuss for the U.S. water industry?**

184 A. Infrastructure requirements, increasing quality standards and security enhancement issues
185 result in severe pressure on the water industry to increase its ability to attract capital as
186 well as its technical and operating capabilities. There is also an obligation on the part of
187 water service providers to do so in a manner that minimizes costs to consumers,
188 consistent with the quality service they have a right to expect. American's policy of
189 pursuing consolidation through mergers and acquisitions has been integral to its effort to
190 meet the challenges I discuss.

191

192 Q. How will the transaction help meet the industry challenges and benefit customers?

193 A. The following are among the benefits resulting from the transaction:

194 A. **Size And Financing Capability.** As discussed above, the need to
195 comply with increasingly stringent water quality and environmental standards,
196 while also rehabilitating and replacing aging water infrastructure, has created
197 substantial demands for capital investment by water utilities. Although the
198 American System has been extremely successful in raising needed funds, the
199 financial resources and backing of RWE/Thames will enhance
200 Illinois-American's access to the capital markets.

201 B. **Best Practices.** The proposed merger of American and Thames
202 will combine two "best in class" water utilities and will strengthen
203 Illinois-American's ability to continue to provide its customers with adequate,
204 reliable, efficient, safe and least-cost water service. For example,
205 Illinois-American will benefit from Thames' vast experience and expertise in the
206 planning, procurement and delivery of capital projects. Notably in this regard,
207 Thames has implemented a number of innovative partnering techniques with its
208 suppliers/contractors, including the use of incentives and computer modeling
209 methods, that allow it to accurately target and maximize capital benefits while
210 minimizing the cost to customers. In addition, the sharing of best practices will
211 facilitate the development of new systems and processes in the future.

212 C. **Research And Development.** American is a recognized leader in
213 the identification and detection of pathogenic organisms, cryptosporidium being a
214 prime example. Thames, in turn, enjoys a comparable reputation in the areas of
215 water quality monitoring and treatment. Thames also is at the cutting edge in
216 terms of burst pipe prediction and trenchless technologies (e.g., the relining, as
217 opposed to physical replacement, of distribution mains), as well as the efficient
218 use and reuse of water. The marriage of American's and Thames' research and
219 development capabilities will benefit the customers of both companies.

220 D. **Environmental Protection.** The transaction will allow American
221 and Thames to join together to continue to provide environmentally-friendly
222 service to customers. As Mr. Carmedy indicates, Thames is committed to
223 excellence in its water quality and service standards throughout the world.
224 American consistently achieves outstanding records of annual compliance with
225 Federal and state regulations, and works with environmental regulators to develop
226 ever improved forms of environmental stewardship. For example,
227 Illinois-American, with the approval of the Illinois Environmental Protection
228 Agency ("IEPA") and the Illinois Pollution Control Board ("IPCB"), entered into
229 and implemented the first solids trading project in the State, which is modeled on
230 the air emissions trading program. The project is designed to reduce the loading

of the Mississippi River by at least a two to one ratio (2:1), when compared with the solids which the treatment facility returns to the River. The project is a model for other treatment facilities and industries throughout the State.

E. Facility Security. American and Thames share a common commitment to the protection of the nation's vital infrastructure. The tragic events of September 11, 2001 certainly brought the issue into even sharper focus and various initiatives have been launched throughout the American System to ensure that this challenge is met. At the same time, American believes that Thames can provide valuable advice and assistance on security-related matters because Thames, for many years, has had to deal with the very real threat of terrorist attacks on its facilities in the United Kingdom and other countries throughout the world.

F. Opportunities For Employees. The transaction offers expanded opportunities to Illinois-American employees for career advancement and professional growth. Like American, Thames firmly believes in equipping its employees with the skills and tools needed to perform at the highest possible level and, to that end, spends approximately \$6 million a year on training alone. Illinois-American employees will benefit from access to Thames' innovative training programs and the potential for international assignments. These enhanced opportunities, in turn, will benefit Illinois-American in its ongoing efforts to recruit, develop and maintain a skilled workforce.

G. Community Outreach. Thames shares American's long-standing commitment to community service and not only encourages its employees to become involved in their local communities, but matches their charitable giving through a corporate payroll program called "Give as you Earn." Thames also supports regional water supply solutions such as Illinois-American's on-going effort to address the problems faced by smaller systems that may lack the financial and/or technical resources required to comply with evolving water quality standards. As part of the much larger Thames organization, Illinois-American should be even better equipped to take on these challenges.

Q. Has Illinois-American participated in the water industry consolidation that you have discussed?

A. Yes. For its part, Illinois-American has acquired 15 water systems and one wastewater system since 1996 (including the acquisition of CUCI, which has not yet closed), adding

approximately 106,000 water and 32,000 wastewater customers. Some of the benefits that consolidation can offer are: (i) a size and financial strength that would permit capital attraction at a lower cost; and (ii) an increased ability to retain and attract professional and technical talent. The transaction will enhance IAWC's position in each of these areas. Specifically, it will provide IAWC with greater access to capital and an enhanced capability to offer career path development and training and, thereby, attract and retain qualified personnel.

Q. Will any of Illinois-American's practices or policies change as a result of the transaction?

A. There will be no adverse changes at all in the planned day-to-day operations or management of Illinois-American. There will be no adverse changes in Illinois-American's policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations. Also, the transaction will cause no changes in staffing or compensation, and the value of employee benefits will not be diminished.

Q. How will the transaction affect Illinois-American's employees?

A. As discussed above, the transaction is not expected to affect staffing levels. As Mr. Carmedy indicates, however, employees of Illinois-American should experience additional opportunities for career growth and training.

288

289 **Q. Will the transaction affect any of IAWC's obligations under contracts with**
290 **customers or affiliated interest agreements?**

291 A. No. Illinois-American will continue to honor all of its customer and regulatory
292 obligations. All affiliated interest agreements approved by the Commission to which
293 Illinois-American is a party, including the Services Agreement, will remain in effect
294 unless or until the agreements terminate and/or the Commission approves amended
295 agreements.

296

297 **Q. Will the transaction result in the unjustified subsidization of non-utility activities by**
298 **Illinois-American or its customers?**

299 A. No. It will not result in the unjustified subsidization of non-utility activities by Illinois-
300 American or its customers. Illinois-American does not engage in a significant level of
301 such activity. To the extent that Illinois-American engages in such activities in the
302 future, it will continue to maintain its books and records in such a manner as to fairly and
303 reasonably allocate utility and non-utility activities in such a manner that the Commission
304 may identify those costs and facilities that are properly included for ratemaking purposes.

305

306 Q. Will the transaction impair IAWC's ability to raise necessary capital on reasonable
307 terms or to maintain a balanced capital structure?

308 A. No. It will not impair and, as Mr. Carmedy discusses, is expected to enhance Illinois-
309 American's ability to raise necessary capital on reasonable terms and to maintain a
310 reasonable capital structure.

311

312 Q. Will Illinois-American remain subject to all applicable laws, regulations, rules,
313 decisions and policies governing the regulation of Illinois Public Utilities?

314 A. Yes, it will.

315

316 Q. Will the transaction have an adverse effect on competition in the State of Illinois?

317 A. No. The transaction contemplated by the Agreement will not adversely impact
318 competition because Illinois-American will continue to operate in its current certificated
319 service territories under the same market conditions that currently exist. Due to
320 geographical separation, there is no competition between Illinois-American and any
321 present operating company or other entity owned by Thames Holdings.

322

323 Q. Will the transaction have any adverse rate impact on retail customers?

324 A. No. The transaction will not have any adverse impact on the existing rates for
325 Illinois-American. Illinois-American will continue to operate under its existing tariffs
326 and rate structures (until such time as such tariffs and rate structures are amended in
327 accordance with Illinois law and the ordinary course of business).

328

329 **Q. Aside from the Services Agreement, does Illinois-American have in place other**
330 **affiliated interest agreements?**

331 A. Yes. Aside from the Services Agreement already discussed, the Commission has
332 approved IAWC's affiliated interest agreements with American Water Capital Corp.
333 (Docket 00-0306) and with Iowa-American Water Company (Docket 01-0419).
334 Effective upon the closing of IAWC's acquisition of CUCI's water and wastewater assets,
335 IAWC will have in effect the Lease, Water Purchase Agreements, Storage/Transportation
336 Agreement, and Services Agreement addressed in the Order approving the Acquisition
337 (Docket 00-0476). Also in effect are certain affiliated interest agreements which are
338 exempt from individual approval under the terms of the Illinois Public Utilities Act
339 ("Act"). None of these agreements, however, are affected by the transaction. All of the
340 agreements will remain in place for their respective terms or until such time as a new
341 agreement is established subject to any required approval of the Commission.

342

343 **Q. Does IAWC plan to transfer assets or information for use by an affiliate?**

344 A. No. Aside from data and information used by the parent in assembling consolidated
345 financial statements, for normal business purposes or under the approved affiliate
346 agreements referenced above, there are no current plans to transfer for use by an affiliate
347 any utility assets or information. If plans for such a transfer are developed in the future,
348 the proposed transaction and terms and conditions thereof will be submitted to the
349 Commission for approval.

CAPITAL STRUCTURE

Q. Will the transaction affect Illinois-American's capitalization?

A. No. As noted above, the transaction itself is not expected to affect IAWC's balance sheet. As Exhibit J of the Appendix shows, IAWC's common equity and long-term debt ratios are expected to be 44.77% and 55.13%, respectively, during 2003, the first calendar year following the expected closing date of the transaction. Upon closing of the transaction, the capital structure of Illinois-American will be consistent with the provisions of Section 6-103 of the PUA.

STATUS OF REQUIRED APPROVALS

Q. Has the Agreement yet received any of the required approvals?

A. Yes. The Agreement has been approved by the Boards of Directors of Thames Holdings, RWE, and American.

Q. What additional approvals are required?

A. The Agreement is conditioned upon, among other things, obtaining (i) necessary regulatory approvals, including the approval of the Commission, and (ii) the approval of American's shareholders. A meeting of American's shareholders has been scheduled for January 17, 2002.

369 Q. Do the Joint Applicants seek the Commission's approval of the Agreement on an
370 expedited basis?

371 A. Yes. The consummation of the transaction and the benefits to be derived therefrom, as
372 discussed above, will be realized more expeditiously if the matter is considered by the
373 Commission as quickly as possible. Every effort has been and will be made to provide
374 the Commission with all the information and assurances that it needs to promptly
375 consider the transaction. For these reasons, Joint Applicants respectfully request that the
376 Commission process this matter and issue the requested relief on an expedited basis.
377

378 SUPPORTING DATA, INFORMATION AND MATERIAL

379 Q. Have the Joint Applicants prepared information to assist the Commission in
380 evaluating the Application?

381 A. Yes. To expedite the Commission's review, Joint Applicants have assembled the
382 following data, information and material for inclusion in the Appendix to Testimony:

383 (a) A copy of the Agreement dated September 16, 2001, by and among RWE,
384 American, Thames Holdings, and Acquisition Corp is marked as Exhibit A;

385 (b) A description of RWE is marked as Exhibit B (discussed by
386 Mr. Carmedy);

387 (c) A description of Thames is marked as Exhibit C (discussed by
388 Mr. Carmedy);

389 (d) Income statements and balance sheets for Illinois-American for the year
390 ending December 31, 2000 are marked as Exhibit D;

391 (e) A 2000/2001 annual report for RWE is marked as Exhibit E (discussed by
392 Mr. Carmedy);

393 (f) The certificated service areas for Illinois-American are depicted on the
394 map shown in Exhibit F;

395 (g) A diagram showing the corporate structure of Thames Holdings as it will
396 exist after the Acquisition is marked as Exhibit G (discussed by Mr. Carmedy);

397 (h) As noted above, American is the parent company of Illinois-American.
398 Illinois-American has no subsidiaries. A complete listing of the companies with which
399 Illinois-American is affiliated as of the date hereof appears on Exhibit H;

400 (i) Exhibit I is a copy of the Services Agreement between Illinois-American
401 and American Water Works Service Company, Inc. If other affiliated interest agreement(s) is
402 (are) proposed in the future, Illinois-American will submit such agreements for any required
403 approval;

404 (j) The most recent five-year forecast showing the capital requirements of
405 Illinois-American is marked as Exhibit J. The forecast includes for each year following the
406 transaction: (i) projected capital requirements; (ii) sources of capital; (iii) the projected capital
407 structure; and (iv) the assumptions underlying the information included in the forecast;

408 (k) A credit rating report for both RWE and Thames is marked as Exhibit K
409 (discussed by Mr. Carmedy); and

410 (l) Copies of filings seeking approvals related to the transaction made with
411 other state agencies and the federal government are attached or will be provided when available.

412

413 **Q. Does this conclude your testimony?**

414 **A.** Yes it does.

CURRICULUM VITAE

Name: Michael Carmedy

Date of Birth: 5 June 1964

Education: 1983-86 University of Kent, Canterbury

Qualifications Awards:

BA (Hons) Accountancy, 2:1

Winner of the Arthur Andersen Tax Prize 1985

1975-82 St Johns Comprehensive School, Co. Durham

Qualifications:

Gained 3 x 'A' Levels (English, Geography, Economics)

Gained 9 x 'O' Levels

Professional Qualification: Chartered Accountant (ACA) - Qualified 1990

Work Experience:

August 2001 to date

Senior Vice-President and Commercial Director, Thames Water Americas

Primary duties:

- Manage the regulatory approval of American Water Works.
- Commercial lead with regard to Thames Water Americas project bids.
- Risk management.

January 2000 to 31 July 2001 (full-time from 1 October 2000)

Vice-President and Commercial Director, Thames Water North America (TWNA)

Primary duties:

- Provide guidance and support as required to the E'town management team, ensuring a common understanding of business priorities.
- Management of the integration process between Thames Water and Elizabethtown.
- Commercial lead with regard to TWNA project bids.
- Project Manager for all TWNA acquisition activities.

April 1998 to October 2000

Financial Controller, TWUL Engineering and Acquisition Manager for TW Plc.

Financial Controller responsibilities include:

- Primary responsibility for all financial matters within Engineering, reporting to the Engineering Director.
- Managing the preparation of business plans, budgets and re-forecasts.
- Financial/Commercial advice regarding all key business issues.
- Establishment and management of a credible finance team.

Acquisition Manager responsibilities include:

- Project management of major acquisition bids, reporting to the Finance Director, TW Plc.
- Management of due diligence efforts.
- Management and co-ordination of external advisers.

April 1991 to March 1998

Various roles within the Thames Water Plc Internal Audit Department, joining as a Senior Auditor, being promoted to Supervising Auditor and in September 1996 to Investigations and Special Audits Manager

Key responsibilities included:

- Project management of major corporate finance activities, including the disposal of two major subsidiaries following Thames' focus on core operating activities.
- Establishment of audit methodologies for large build/own/operate/transfer (BOOT) and concession type contracts.
- Business reviews of International subsidiaries, including companies in the US, Thailand, Hong Kong, Singapore and Australia.
- Management of Internal Audit's reviews of non-TWUL subsidiaries.
- Management and performance of operational audit reviews.
- Establishment and management of Internal Audit's performance of US subsidiary year end financial audits.

May 1990 to March 1991

Moore Rowland, Chartered Accountants, Audit Senior

- Performance and management of financial audits.
- Primary responsibility for first audit of new clients.

August 1986 to April 1990

Fraser and Russell, Chartered Accountants, Audit Trainee

415

STATE OF ILLINOIS

416

ILLINOIS COMMERCE COMMISSION

417

418 ILLINOIS-AMERICAN WATER COMPANY,)

419 and THAMES WATER AQUA HOLDINGS,)

420 GmbH)

421)

422 Joint Application For Approval Of Proposed)

423 Reorganization And Change In Control Of)

424 Illinois-American Water Company Pursuant To)

425 Section 7-204 Of The Illinois Public Utilities Act.)

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433

DIRECT TESTIMONY

434

435

OF

436

437

MICHAEL CARMEDY

438

439

DIRECT TESTIMONY OF MICHAEL CARMEDY

440 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE**

441 A. My name is Michael Carmedy. My business offices will be located at 1101 Laurel Oak
442 Road, Mt. Laurel, NJ 08054. I am currently employed as the Senior Vice-President and
443 Commercial Director of Thames Water Americas. I also serve as a Board member of
444 Elizabethtown Water Company.

445 **Q. PLEASE DESCRIBE YOUR EDUCATION and EMPLOYMENT HISTORY.**

446 A. From 1983 through 1986, I attended the University of Kent in Canterbury, England
447 where I earned a Bachelors Degree in Accounting, with Honors. In 1990, I qualified as a
448 Chartered Accountant. From 1986 to 1990, I worked as an Audit Trainee with Fraser and
449 Russell, Chartered Accountants. From 1990 to 1991, I worked as an Audit Senior with Moores
450 Rowland, Chartered Accountants. I joined Thames Water Plc ("Thames") in 1991 as a Senior
451 Auditor in its Internal Audit Department. Throughout my career I have held a variety of
452 increasingly responsible positions, including Supervising Auditor and Investigations and Special
453 Audits Manager. In 1998, I moved to the position of Financial Controller, Thames Water U.L.,
454 Engineering. In this position, I became responsible for project management for major U.S.
455 acquisitions. A more detailed curriculum vitae is attached as Exhibit 2.1.

456 **q. please describe your current employment responsibilities.**

457 A. As Senior Vice-President and Commercial Director for Thames Water Americas, my
458 primary obligations are the supervision of project bids on behalf of Thames Water Americas, risk
459 management, and the coordination of regulatory approvals related to the acquisition of American
460 Water Works Company, Inc. ("American").

461 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

462 A. The purpose of my testimony is to provide the Illinois Commerce Commission
463 ("Commission") with information regarding the manner in which Illinois-American Water
464 Company ("Illinois American") will be managed and operated after the closing of the
465 contemplated acquisition. The details of the acquisition are set forth in the Application and the
466 Agreement referenced therein.³ I will describe the terms of this acquisition from my perspective
467 as a member of the Due Diligence Team representing Thames and RWE Aktiengesellschaft
468 ("RWE") with respect to the proposed transaction. As discussed herein and in the testimony of
469 Illinois-American's witness, Mr. Gloriod, the proposed transaction will have no adverse impact
470 on Illinois-American's operations, employees and customer rates. Additionally, the proposed
471 transaction will have no adverse impact on the safety and reliability of the system. In fact, as
472 discussed below, the transaction will offer many potential benefits to Illinois-American and its
473 customers. More specifically, I will provide to the Commission information explaining how
474 Thames will preserve and build upon the excellent reputation and record of Illinois-American
475 and American after the transaction is completed. Illinois-American witness Mr. Gloriod will

³ A copy of the Agreement is included in the Appendix to Testimony as Exhibit A.

476 discuss how the transaction meets the requirements of Section 7-204(b) (220 ILCS 5/7-204(b))
477 of the Illinois Public Utilities Act ("PUA").

478 **Q. PLEASE DISCUSS THE TERMS OF THE AGREEMENT.**

479 A. Pursuant to the terms of the Agreement and Plan of Merger ("Agreement"), dated
480 September 16, 2001 by and among RWE, Thames Water Aqua Holdings GmbH ("Thames
481 Holdings"), Apollo Acquisition Company ("Acquisition Corp."), and American, American will
482 become a wholly-owned subsidiary of Thames Holdings which, in turn, is a wholly-owned
483 subsidiary of RWE. Illinois-American will continue to be a subsidiary of American and will
484 continue to exist as an Illinois public utility subject to the jurisdiction and regulation of the
485 Commission under the PUA. The Agreement provides that each issued and outstanding share of
486 Common Stock, par value \$1.25 per share, of American ("American Common Stock") not
487 owned by Thames Holdings, Acquisition Corp. or American, other than shares owned by any
488 holder who invokes appraisal rights under Delaware law, shall be converted into the right to
489 receive cash in consideration of \$46.00 per share. The current authorized capital stock of
490 American consists of (i) 300 million shares of American Common Stock, (ii) 1,770,000 shares of
491 Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"), (iii) 750,000
492 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"), and
493 (iv) 3 million shares of Cumulative Preferential Stock, par value \$35.00 per share (the
494 "Preferential Stock"). As of September 30, 2001, 99,971,542 shares of American Common
495 Stock (excluding shares held by American as treasury shares), 101,777 shares of the Preferred
496 Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were
497 issued and outstanding. The Agreement requires American to redeem, prior to closing of the
498 transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per
499 share, plus full cumulative dividends thereon, and each outstanding share of the Preference Stock
500 at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The
501 Agreement also provides that, at the time of closing of the transaction, each share of American
502 Common Stock owned by Thames Holdings, Acquisition Corp. or American shall automatically
503 be cancelled and cease to exist and no consideration shall be paid for such shares. Under the
504 Agreement, RWE will provide Thames Holdings with sufficient funds to consummate the
505 transaction. The Agreement will affect none of the outstanding debt owed and recorded as
506 liabilities on the books of Illinois-American. Unless retired or redeemed in accordance with its
507 terms, all of that outstanding debt will continue to be liabilities and obligations of Illinois-
508 American. Likewise, none of Illinois-American's assets will be affected by the Agreement. That
509 is to say, all of its assets will continue to be assets of Illinois-American.

510 **Q. PLEASE BRIEFLY describe the rwe companies involved in the proposed**
511 **transaction.**

512 A. RWE, Germany's fifth largest industrial group, is an international multi-utility service
513 provider with core businesses in electricity, water, gas, waste management and utility-related
514 services. RWE is active in more than 120 countries on six continents. Thames Holdings, a
515 wholly-owned subsidiary of RWE, is the holding company for Thames. Thames operates the
516 water division of Thames Holdings, bringing to Thames Holdings its extensive experience and
517 expertise as the largest water and wastewater company in the United Kingdom and one of the
518 largest water and wastewater companies in the world -- providing water-related services to over

519 43 million people throughout the United Kingdom, Australia, China, Indonesia, Malaysia, Puerto
520 Rico, the United States, Turkey and other countries around the world. Copies of the corporate
521 profiles of RWE and Thames are included in the Appendix to Testimony as Exhibits B and C,
522 respectively.

523 **Q. PLEASE BRIEFLY DESCRIBE THE IMPACT ON Illinois-AMERICAN'S**
524 **CORPORATE STRUCTURE.**

525 A. After closing of the acquisition described in the Agreement, Illinois-American will
526 continue to exist in the same corporate form as it does today and will continue to be a subsidiary
527 of American. It will remain a public utility subject to the jurisdiction and regulation of the
528 Commission under the PUA. A diagram of the transaction is included in the Appendix to
529 Testimony as Exhibit G. As a result of the transaction, instead of American's stock being held by
530 many individual stockholders, Thames Holdings will acquire American's common stock, and
531 American will become a wholly-owned subsidiary of Thames Holdings which, in turn, is a
532 wholly-owned subsidiary of RWE.

533 **Q. PLEASE DESCRIBE HOW THIS TRANSACTION WILL AFFECT THE DAY-TO-**
534 **DAY OPERATIONS AND MANAGEMENT OF ILLINOIS-AMERICAN.**

535 A. This transaction will not adversely affect the day-to-day operations and management of
536 Illinois-American. RWE/Thames seeks to acquire American in large measure due to American's
537 outstanding reputation for quality management and operation of its subsidiaries, including
538 Illinois-American. Thames is committed to using existing Illinois-American management and
539 expertise. Operational control of Illinois-American will remain as it is today. The transaction
540 will not cause the relocation of the operating headquarters from its current location in Belleville,
541 Illinois. Moreover, it is important to note that, upon closing of the transaction, Thames will
542 expand American's corporate headquarters in Voorhees, New Jersey to manage all of Thames'
543 business operations in North, Central and South America.

544 **Q. IN YOUR OPINION, WILL THE TRANSACTION ADVERSELY AFFECT Illinois-**
545 **AMERICAN'S ABILITY TO PROVIDE adequate, reliable, efficient, safe and**
546 **least-cost public utility service?**

547 A. No, the transaction will not adversely affect Illinois-American's ability to provide
548 reliable, efficient, safe and least-cost public utility service. Similar to American and Illinois-
549 American, Thames recognizes that customer satisfaction is essential for successful business
550 operations. We share American's commitment to service excellence. In other words, Thames
551 assures this Commission that, following the transaction, Illinois-American will continue to
552 provide high-quality water service that meets or exceeds Illinois regulatory requirements. In
553 addition, we are committed to ensuring that Illinois-American will continue to maintain an
554 adequate level of capital investment and best operating practices to ensure safe and reliable
555 service consistent with applicable requirements.

Q. IS THAMES COMMITTED TO ENSURING THE SECURE OPERATION OF ILLINOIS-AMERICAN'S EXISTING SYSTEMS?

A. We fully recognize and appreciate the increased expectations placed on the United States water industry regarding infrastructure security following the tragic events of September 11. Thames pledges its unqualified commitment to carrying out a comprehensive security plan, not only during the period of transition, but also for the years to come. A renewed emphasis on security is already well underway throughout the American system. While, for obvious reasons, specifics with regard to the companies' security initiatives are highly confidential, the companies are prepared to share their initiatives with appropriate officials in a manner that will balance the mutual objectives of comprehensive security planning and national security.

Q. PLEASE DESCRIBE THE IMPACT OF THE PROPOSED TRANSACTION ON ILLINOIS-AMERICAN'S EMPLOYEES.

A. Illinois-American's and American's employees are key to providing customers with excellent, reliable service. This quality of service is also a primary focus and priority for Thames, and is one of the reasons the companies are such a compatible combination. The transaction will not result in any change in the existing management and officers of Illinois-American. All collective bargaining agreements will also be honored.

Q. WHAT, IF ANY, IMPACT WILL THE TRANSACTION HAVE ON ILLINOIS-AMERICAN'S RATES?

A. The transaction itself will not result in any increase in rates. Illinois-American will continue to operate under its existing tariffs and rate structures. The transaction is an acquisition of the stock of American. It is anticipated that operations of the subsidiaries of American will not change as a result of the transaction. Relying on current management policies and control over operations, Illinois-American will continue to ensure that its rates are just and reasonable. None of the outstanding debt owed and recorded as liabilities on the books of Illinois-American will be affected by the Agreement, and the transaction will cause no changes in the balance sheet or financial position of Illinois-American.

Further, the transaction will not result in any adverse changes in Illinois-American's policies with respect to financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.

Illinois-American has reported its existing agreements and transactions with affiliated companies to the Commission. As of the present time, we have identified no transactions in which Illinois-American is acquiring goods or services from, or providing goods or services to, companies that will become affiliates as a result of the transaction contemplated by the Agreement. We fully understand that, should such transactions or arrangements arise, Illinois-American will be required to make all necessary disclosures and/or filings in accordance with the PUA and the Commission's rules. Illinois-American's rates will reflect the costs of such transactions only to the extent permitted by future Commission orders.

Subject to appropriate protection of confidential information, the books and records of RWE and/or Thames will be made available to the Commission to the extent necessary for auditing of costs incurred by either that are allocated to Illinois-American for recovery in rates. Thames also acknowledges the Commission's statutory authority to perform

management audits, and will cooperate fully in that regard. Subject again to appropriate confidentiality agreements, Thames will provide copies of Federal Income Tax returns in those cases where Illinois-American income is included in a consolidated return with other subsidiaries of Thames or RWE. Finally, Thames will comply with any Commission requirements to make available personnel who are familiar with the records identified above.

Q. WILL THE transaction significantly impair ILLINOIS-AMERICAN'S ABILITY TO RAISE CAPITAL ON REASONABLE TERMS AND MAINTAIN A REASONABLE CAPITAL STRUCTURE?

A. No. Although American has been successful in raising capital, the financial resources and backing of RWE/Thames will enhance Illinois-American's and American's access to capital markets.⁴ Access to capital markets at reasonable costs will be a benefit to Illinois-American and its customers. The enhanced access to capital will allow the continued maintenance of a reasonable cost structure.

q. Section 7-204(c) of the pua requires the commission to rule on: (1.) the allocation of any savings resulting from the transaction; and (2.) whether joint applicants should be allowed to recover the costs incurred to accomplish the transaction. would you please comment on this requirement?

A. Thames does not seek recovery of any acquisition premium or costs to accomplish the proposed transaction, and Thames does not intend to pass such costs through to Illinois-American. Therefore, under Section 7-204(c), the Commission should rule that no costs incurred in accomplishing the transaction are recoverable in rates. Moreover, since Thames does not currently maintain operations in Illinois, Thames does not expect synergy savings to result in Illinois from the proposed transaction. Accordingly, under Section 7-204(c), the Commission should rule that savings reflected in future rate case test years, if any, should be allocated in full to customers.

Q. CAN YOU PROVIDE SOME EXAMPLES OF THE BENEFITS that can be expected as a result of THIS TRANSACTION?

A. Yes. Thames and Illinois-American can be expected to benefit from combination of the best practices of both American's and Thames' systems. In terms of customer support and service, we anticipate that Illinois-American customers will benefit in those instances where this partnership delivers the economies and efficiencies that are inherent when two industry leaders share their practical knowledge and experience. The benefits that we expect will be realized by Illinois-American and its customers include the following:

Security

Since the tragic events of September 11, a renewed emphasis on security has been underway throughout the American water system. American has been reviewing the security measures in place throughout its system. As a result of this review, Illinois-American is evaluating and implementing new methods and procedures to better ensure the security of its

⁴ A copy of RWE and Thames' credit ratings is included in the Appendix to Testimony as Exhibit K.

operations. Thames, with water operations around the globe, has considerable experience in operating water facilities and systems in regions where security concerns have been a fact of life for some time. For example, Great Britain has been subject to threat by IRA factions for decades, and by Middle Eastern terrorists since the Gulf War. Thames stands ready and willing to utilize its expertise to enhance Illinois-American's security efforts. Although we will remain separate independent companies until the transaction closes, we look forward to beginning the exchange of best practices as soon as possible. One important area for such an exchange may be within the scope of facility security, a topic that has come to the fore in the aftermath of September 11. We firmly believe that Illinois-American -- and ultimately its customers -- will benefit significantly from sharing Thames' extensive experience in developing and implementing comprehensive security measures to protect its customers and employees throughout the world. Thames pledges its unqualified commitment to implement and maintain a comprehensive security plan, not only during the period of transition, but also for the years to come.

Environmental Matters

Further, both companies recognize the importance of conducting their operations in an environmentally compatible manner and, as such, actively promote nature conservation on their sites. American and its subsidiaries have a strong environmental track record that will be further enhanced through its association with Thames. American consistently achieves outstanding records of annual compliance with Federal and State Regulations. American's subsidiaries have received 47 awards from the U.S. Environmental Protection Agency Partnership for Safe Water. Thames is also strongly committed to environmental protection, and numerous Thames Water sites have been awarded the internationally recognized ISO 14001 Environmental Standard. Thames also works with and supports a wide range of environmental and conservation groups internationally, in part by voluntarily conducting surveys to assist these groups in implementing biodiversity protection projects. Additionally, Thames utilizes "green energy," with seventeen combined heat and power plants running bio-gas and two sludge-powered generators. The transaction will enable American and Thames to join together to continue to enhance environmentally-friendly service for their customers.

Service Standards

In the area of service standards, American Water has earned an enviable reputation throughout the United States. It maintains its facilities in superior condition, and ensures safe, reliable and high-quality service to its customers through capital investment in its infrastructure. Similarly, Thames is committed to excellence in its water quality and service standards throughout the world. In fact, the Thames track record of compliance with drinking water standards in the UK is now 99.89%, while wastewater effluent compliance is 99.99%. Since privatization in 1989, Thames has invested in excess of \$6 billion in enhancing the quality of its service, including construction of an advanced water treatment system and major renovations of water mains and sewage treatment works. Throughout its system, Thames has established numerous programs to improve the quality of its service, including cost-optimized network renewal and refurbishment and the development of ultra-violet disinfection of drinking water. Thames has every intention of continuing the long and proud service that has come to be expected of the American Water System generally, and Illinois-Water in particular.

Customer Service

For many years, both companies have demonstrated their strong commitment to customer service and responsiveness. Illinois-American is dedicated to providing its customers with continuous customer service. Its parent corporation, American, recently opened a state-of-the-art Customer Service Center located in Alton, Illinois to assist its customers 24 hours a day. Likewise, Thames has a 24-hour customer service center that has won the UK Utility Industry Achievement Award for Excellence three years in a row. One of the key customer service issues facing the utility industry is integration between the call center and the field service function. Thames has developed and implemented an integrated approach to service management inquiries by installing the latest information technology for mobile field applications. This provides a direct, real-time link between the system in use in the Call Center and the technicians in the field. This real-time connection delivers critical Geographic Information Systems work management system data. The customer benefits by having problems ascertained, analyzed, and addressed by field personnel in a very accurate and efficient manner. The new system results in a much more professional and problem-free service, and reduces the need for customers to make repeated calls to different parts of the organization. American will take advantage of Thames' experience to implement a similar service, thereby further improving service and reducing the time and cost of delivery. Together, these quality organizations will continue their commitment and improve customer service by utilizing the best practices of both organizations.

Research and Development

In the area of research and development, American and Thames are both recognized industry leaders. The pooling of our collective expertise will make the combined entity a world leader in this area. Notably, Thames has an annual research and development budget of \$13 million. Thames has developed cutting-edge technologies in the areas of transmission and distribution.

Community Service

The transaction will positively impact community development in the areas served by Illinois-American. Thames, RWE, and American all share a long history of service in the communities where they operate. For American, financial contributions to the community are generally focused on environmental programs, as well as on initiatives that support the next generation of community leaders. American's involvement goes far beyond financial support, as it routinely involves the personal participation and leadership of employees in important community programs. Thames also has a long and illustrious track record of investing in local communities, particularly in support of the environment and extra-need customers. For example, Thames supports its employees' involvement in community groups through a payroll program called "Give as You Earn." In this program, Thames matches charitable contributions raised by teams of employees. Additionally, RWE participates in numerous community-oriented projects around the globe. It sponsors a variety of projects in areas ranging from promoting arts and culture, to programs modernizing the water infrastructure in developing countries. Companies such as American, RWE, and Thames understand that a good reputation must be earned. They also understand that it takes a great deal of work and commitment to maintain such reputations. Clearly, the philosophy of corporate responsibility resides at the core of the RWE, Thames and American cultures, and the philosophy will continue.

722 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

723 A. Yes. Thames, the entity responsible for RWE's water operations, looks forward to the
724 continued operation, maintenance and growth of Illinois-American, which has provided quality
725 service to Illinois customers for more than 100 years.

KENTUCKY

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-	:	
AMERICAN WATER COMPANY	:	
AND THAMES WATER AQUA HOLDINGS	:	CASE NO. 2002-00018
GmbH FOR APPROVAL OF A CHANGE IN	:	
CONTROL OF KENTUCKY-AMERICAN	:	
WATER COMPANY	:	

INTRODUCTION

Petitioners Kentucky-American Water Company ("Kentucky-American") and Thames Water Aqua Holdings GmbH ("Thames Holdings"), on behalf of itself and its parent holding company RWE Aktiengesellschaft ("RWE"), pursuant to KRS 278.020 request that the Public Service Commission ("Commission") approve the change of control of Kentucky-American. The Agreement and Plan of Transaction ("Agreement"), dated September 16, 2001, attached as Exhibit 1, by and among RWE, Thames Holdings, Apollo Acquisition Company ("Acquisition Corp."), a wholly owned subsidiary of Thames Holdings created for the purpose of implementing the Agreement, and American Water Works Company, Inc. ("American"), provides in part that Acquisition Corp. shall be merged with and into American, the parent of Kentucky-American. American shall be the surviving corporation and shall continue its corporate existence under Delaware law.

I. THE COMPANIES

1. Petitioner Kentucky-American, a corporation of the Commonwealth of Kentucky, with its principal office located at 2300 Richmond Rd, Lexington, KY 40502, is a regulated public utility organized and operating under the laws of the Commonwealth of Kentucky. Within its service area, encompassing parts of nine (9) counties in Kentucky, it serves approximately 101,000 residential water customers and a population of 290,000. It also provides water to ten (10) water districts and municipalities. A copy of its Articles of Incorporation, along with all amendments thereto is incorporated by reference as authorized by 807 KAR 5:001, sections 10(1)(b)3 and sections 8(3), and was filed as Filing Exhibit No. 4 in Case No. 95-554, "Notice of Adjustment of Rates of Kentucky-American Water Company Effective On and After February 29, 1996".

2. American is incorporated in Delaware. Its principal office is located at 1025 Laurel Oak Road, Voorhees, N.J. 08043. It is a publicly traded water and wastewater services company.

3. Petitioner Thames Holdings' has an office located at 1101 Laurel Oak Road, Voorhees, New Jersey 08043. It is a company organized under the laws of the Federal Republic of Germany and a wholly-owned subsidiary of RWE. A copy of the Certified Excerpt of the Commercial Register of Essen Germany Re: Thames Water Aqua Holdings GmbH is attached as Exhibit 2.

4. RWE is a corporation organized under the laws of the Federal Republic of Germany. Its principal office is located at Opernplaz 1, 45128 Essen, Germany. A description of RWE is attached as Exhibit 3.

5. Thames Water PLC ("Thames") is a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom. Thames operates the water business of Thames Holdings and brings to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to over 43 million people in the United Kingdom, United States, Australia, China, Indonesia, Malaysia, Puerto Rico, Turkey and other countries. A description of Thames is attached as Exhibit 4.

II. THE AGREEMENT

6. Under the terms of the Agreement, which is attached as Exhibit 1, American will become a wholly-owned subsidiary of Thames Holdings which, in turn, is a wholly-owned subsidiary of RWE.

7. Kentucky-American will continue to be a wholly-owned subsidiary of American and will continue to exist as a Kentucky public utility corporation subject to the jurisdiction and regulation of the Commission. A summary copy of the current and proposed organizational charts is attached as Exhibit 5.

8. The Agreement provides that each issued and outstanding share of Common Stock, par value \$1.25 per share, of American ("American Common Stock") not owned by Thames Holdings, Acquisition Corp. or American, other than shares owned by any holder who invokes appraisal rights under Delaware law, shall be converted into the right to receive cash consideration of \$46.00 per share.

9. As of September 30, 2001, the authorized capital stock of American consisted of (i) 300,000,000 shares of American Common Stock, (ii) 1,770,000 shares of

Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"), (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"), and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

10. As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding shares held by American as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The Agreement requires American to redeem, prior to the closing of the transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of the Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the closing of the transaction, each share of American Common Stock owned by Thames Holdings, Acquisition Corp. or American shall automatically be canceled and cease to exist and no consideration shall be delivered in exchange therefor.

11. In furtherance of the Agreement, RWE will cause Thames Holdings to have funds sufficient to consummate the transaction.

12. The Agreement is conditioned upon, among other things, obtaining (i) necessary state public utility regulatory approvals, including the approval of the Commission, and (ii) the approval of American's shareholders.

Attachment B

Agreement and Plan of Merger by and among RWE, Thames Holdings,
Apollo Acquisition Company, and American

Attachment C

Information Concerning Market Value of Stock Required by § 20.07.04.05 of COMAR

	American	Maryland-American
Highest Stock Price (1/1/01-12/18/01)	\$42.50	100% of the stock of Maryland-American is owned by American. No shares were transferred during the one-year period before the filing of the Petition.
Lowest Stock Price (1/1/01-12/18/01)	\$24.94	See above
Dividends Paid – 2000	\$.90 per share	\$440,000 on 11,196 shares
Dividends Paid – 1999	\$.86 per share	\$345,000 on 11,196 shares
Dividends Paid – 1998	\$.82 per share	\$295,000 of 9,608 shares
Dividends Paid – 1997	\$.76 per share	\$325,000 of 9,608 shares
Dividends Paid – 1996	\$.70 per share	\$251,000 of 9,608 shares
Price – Total*	\$4,598,690,932	N/A
Price – Per Share	\$46	N/A
Present Owner	Common Stock is publicly traded	American Water Works Company, Inc.
Terms of Payment	Each share of stock is converted into the right to receive merger consideration of \$46 per share	N/A

*Based on 99,971,542 shares of common stock outstanding on September 30, 2001.

Attachment D

Certified Copy of the Articles of Incorporation of Maryland-American

Attachment E

Certified Copy of the Articles of Incorporation of American

Attachment F

Certified Copy of the Certified Excerpt from Essen, Germany
Commercial Register Regarding Thames Holdings
(Original and English Translation)

Attachment G

Amount of Stock Authorized and Issued By Each Corporation and the Financial Condition of Each of the Corporations

	Authorized	Issued as of the date hereof
Maryland- American	15,000	11,196
American	300,000,000 shares of Common Stock 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share 3,000,000 shares of Cumulative Preferential Stock, par value \$35.00 per share	99,971,542 of Common Stock 101,777 shares of Preferred Stock 365,158 Preference Shares No shares of Preferential

The financial condition of American is set forth in the attached 2000 Annual Report.

The financial condition of Maryland-American is set forth in the attached audited financial statement for 2000.

The stock authorized and issued and the financial condition of Thames Holdings and its parent RWE are set forth in RWE's 2000 Annual Report, a copy of which is attached as Attachment A.

NEW JERSEY

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

-----X
IN THE MATTER OF THE JOINT PETITION OF : DOCKET NO.:
NEW JERSEY-AMERICAN WATER COMPANY, INC. :
AND THAMES WATER AQUA HOLDINGS GMBH FOR :
APPROVAL OF A CHANGE IN CONTROL OF :
NEW JERSEY-AMERICAN WATER COMPANY, INC. :
-----X

TO THE HONORABLE COMMISSIONERS OF THE
NEW JERSEY BOARD OF PUBLIC UTILITIES:

INTRODUCTION

Petitioner New Jersey-American Water Company, Inc.
("New Jersey-American") and Petitioner Thames Water Aqua
Holdings GmbH ("Thames Holdings"), on behalf of itself and its
parent holding company RWE Aktiengesellschaft ("RWE"), by way of
this Petition filed pursuant to N.J.S.A. 48:2-51.1, N.J.S.A.
48:3-10 and such other statutes and regulations as may be deemed
relevant to this matter, respectfully request that the New
Jersey Board of Public Utilities ("Board") approve the
acquisition of control described herein. A copy of the
Agreement and Plan of Merger ("Agreement"), dated as of
September 16, 2001, by and among RWE, Thames Holdings, Apollo
Acquisition Company ("Acquisition Corp."), and American Water
Works Company Inc. ("American"), is being filed with the Board
and provided to the Division of the Ratepayer Advocate at the

time of filing of this Petition. The Agreement provides that, subject to obtaining certain regulatory approvals and other conditions, Acquisition Corp. shall be merged with and into American, the parent of New Jersey-American. American shall be the surviving corporation and shall continue its corporate existence under Delaware law. As part of such transaction, Thames Holdings and RWE will be acquiring 100% control of American and, indirectly, control of New Jersey-American.

COMPANIES INVOLVED

1. Petitioner New Jersey-American, a corporation of the State of New Jersey, with its principal office located at 500 Grove Street, Haddon Heights, New Jersey 08035, is a regulated public utility organized and operating under the laws of the State of New Jersey and a subsidiary of American. Within its service territory, New Jersey-American services approximately one million people.

2. American is a corporation organized and existing under the laws of the State of Delaware, with its principal office located at 1025 Laurel Oak Road, Voorhees, New Jersey. American, a holding company, and its subsidiaries have approximately 6,300 employees and provide water, wastewater and other water resource management services to a population of approximately twelve million in twenty-eight states and Canada. Acquisition Corp. is a Delaware corporation and wholly-owned

subsidiary of Thames Holdings created solely for the purpose of implementing the Agreement.

3. Petitioner Thames Holdings, with its local offices to be located at 1101 Laurel Oak Road, Voorhees, New Jersey, is a company organized under the laws of the Federal Republic of Germany and a wholly-owned subsidiary of RWE. A description of RWE is attached as Exhibit A.

4. Thames Water Plc ("Thames") is a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom. Thames operates all of the water business of Thames Holdings and brings to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to over 43 million people world-wide. A description of Thames is attached as Exhibit B.

THE TRANSACTION

5. Under the terms of the Agreement, American will become a wholly-owned subsidiary of Thames Holdings which, in turn, is a wholly-owned subsidiary of RWE.

6. New Jersey-American will continue to be a wholly-owned subsidiary of American and will continue to exist as a New

Jersey public utility corporation subject to the jurisdiction and regulation of the Board.

7. The Agreement provides that each issued and outstanding share of Common Stock, par value \$1.25 per share, of American ("American Common Stock") not owned by Thames Holdings, Acquisition Corp. or American, other than shares owned by any holder who invokes appraisal rights under Delaware law, shall be converted into the right to receive cash consideration of \$46.00 per share.

8. As of September 30, 2001, the authorized capital stock of American consisted of (i) 300,000,000 shares of American Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"), (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"), and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

9. As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding shares held by American as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The Agreement requires American to redeem, prior to the closing of the transaction, each outstanding share of the Preferred Stock at a redemption

price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of the Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the closing of the transaction, each share of American Common Stock owned by Thames Holdings, Acquisition Corp. or American shall automatically be cancelled and cease to exist and no consideration shall be delivered in exchange therefor.

10. In furtherance of the Agreement, RWE will cause Thames Holdings to have funds sufficient to consummate the transaction.

11. The Agreement is conditioned upon, among other things, obtaining (i) necessary state public utility regulatory approvals, including the approval of the Board, and (ii) the approval of American's shareholders.

JURISDICTION AND REGULATORY APPROVALS

12. This petition is being filed pursuant to N.J.S.A. 48:2-51.1 and N.J.S.A. 48:3-10. N.J.S.A. 48:2-51.1 provides that any person acquiring or seeking to acquire "control of a public utility directly or indirectly through the medium of an affiliated or parent corporation or organization, or through the purchase of shares . . . or through any other manner" shall obtain written approval of the Board.

13. N.J.S.A. 48:3-10 provides that no public utility, without approval of the Board, shall transfer its stock to another corporation, the result of which is to vest a majority interest of the outstanding capital stock in another corporation. Although there will be no actual or book transfer of any stock of any operating utility within the contemplation of N.J.S.A. 48:3-10, this petition is being filed pursuant to N.J.S.A. 48:3-10 in the event that the Board determines that such statute is also applicable to this transaction.

A. Approval Pursuant to N.J.S.A. 48:2-51.1

14. In considering a request for approval pursuant to N.J.S.A. 48:2-51.1, the Board is required to "evaluate the impact of the acquisition on competition, on the rates of ratepayers affected by the acquisition of control, on the employees of the affected public utility or utilities, and on the provision of safe and adequate utility service at just and reasonable rates." In addressing requests for approval of a change in control of New Jersey-American pursuant to N.J.S.A. 48:2-51.1, the Board uses a "no harm" standard of review, meaning that the Board has approved acquisitions and mergers after the Board satisfies itself that there would be no adverse impact on the provision of safe, adequate and proper service at just and reasonable rates and that there would be no adverse impact on the other factors delineated in N.J.S.A. 48:2-51.1.

The proposed change in control satisfies the "no harm" standard for the reasons set forth in paragraphs 15 through 18 below.

15. The transaction will have no adverse impact on existing New Jersey-American rates. New Jersey-American will continue to operate under its existing tariffs and rate structures (until such time as such tariffs and rate structures are revised in accordance with New Jersey law). The transaction will cause no changes in the balance sheet or financial position of New Jersey-American. The transaction will not impair New Jersey-American's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure. All of the outstanding debts of New Jersey-American will continue to be liabilities and obligations of New Jersey-American.

16. The transaction contemplated by the Agreement will not have an adverse impact on the compensation of the New Jersey-American employees and the value of employees' benefits will not be reduced. The transaction will benefit New Jersey-American's employees by providing increased opportunities for training and career development. Like American, Thames firmly believes in equipping its employees with the skills and tools needed to perform at the highest possible level. There will be no change in any existing collective bargaining agreement as a result of this transaction.

17. New Jersey-American will continue to provide safe, adequate and reliable service in fulfillment of its obligations under New Jersey law. New Jersey-American will continue its current high-quality service. As more particularly described below, New Jersey-American, by virtue of the greater capital resources of its controlling entities, will be better positioned to meet future demands and to ensure that high quality service is maintained.

18. The transaction contemplated by the Agreement will not adversely impact competition because after the transaction is consummated New Jersey-American will continue to serve its customers in its current franchise territories. The classic concept of competition for customers does not exist in the regulated water utility industry. The transaction will enhance the ability of New Jersey-American and American to more effectively compete with the corporations currently making acquisitions in the water industry. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules promulgated thereunder by the Federal Trade Commission ("FTC"), the transaction may not be completed until notifications have been given to the FTC and the Antitrust Division of the United States Department of Justice and the applicable waiting period has expired or been terminated. Petitioners will take the steps necessary to comply with that Act in a timely fashion.

B. Approval Pursuant to N.J.S.A. 48:3-10

19. In connection with petitions filed pursuant to N.J.S.A. 48:3-10, N.J.A.C. 14:1-5.10 requires the provision of information regarding the reasons for the stock transfer, an explanation of anticipated changes in the Board of Directors, officers, managers, and company policies and a description of the qualifications of management.

20. The reason for the stock transfer is to consummate the transaction contemplated in the Agreement.

21. The transaction will not cause any changes in the officers, active managers or employees of New Jersey-American. After the closing of the transaction, New Jersey-American will continue to have management and operating personnel experienced and capable of carrying out the utility's obligation to render safe, adequate and proper service. The preliminary information mentioned in paragraph 32 below will include, among other things, the impact of a merger of New Jersey-American and Thames' other New Jersey regulated water utilities.

22. To the extent that there may be any change in the composition of the Board of Directors of New Jersey-American as a result of this transaction, there will be no lesser percentage of New Jersey residents on the Board than exist today.

23. The transaction contemplated by the Agreement will not result in any adverse changes in New Jersey-American

policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, services or other matters affecting the public interest or utility operations.

Benefits of the Transaction

24. The transaction involving Thames Holdings and American will have no adverse impact on the criteria delineated in N.J.S.A. 48:2-51.1. To the contrary, the transaction will promote the public interest by sharing resources and expertise that will create opportunities for sharing best operating practices. The potential for benefits is described in paragraphs 25-29 below.

25. The transaction will permit New Jersey-American to utilize Thames' experience and expertise in safeguarding its water systems. Thames, with water operations around the globe, has considerable experience in operating water facilities and systems in regions where security concerns have been a fact of life for some time. New Jersey-American, and ultimately its customers, will significantly benefit from the sharing of Thames' extensive experience in developing and implementing comprehensive security measures to protect its customers throughout the world.

26. The need to comply with increasingly stringent water quality and environmental standards, while also

rehabilitating and replacing aging water infrastructure, has created substantial demands for capital investment by water utilities. Although American has been successful in raising needed funds, the financial resources and backing of RWE/Thames will enhance New Jersey-American's access to capital markets and will be a benefit to New Jersey-American and its customers in the replacement of infrastructure and compliance with the Safe Drinking Water Act.

27. The transaction enhances the strong environmental track records of American and its subsidiaries. The transaction enhances New Jersey-American's ability to respond to environmental challenges. Backed by RWE's annual research and development budget, Thames is conducting several programs in the area of renewable energy. Such programs include the use of solar power, fuel cell technology, wind power and local heat and power generating systems, which offer the potential of ameliorating the continuing increase in the cost of electricity used in the distribution and transmission of water, in addition to water reuse and desalination. The goal of Thames and American is to facilitate new and expanded environmentally friendly programs for New Jersey-American and its customers.

28. The transaction will allow a sharing of research and development between American and Thames. American is a recognized leader in the identification and detection of

pathogenic organisms, cryptosporidium being a prime example. Thames enjoys a comparable reputation in the areas of water quality monitoring and treatment. The combination of these research and development capabilities offers potential benefits to the customers of New Jersey-American.

29. In addition to the specific business-related benefits, American has a long history of service in the communities where it operates. The philosophy of corporate responsibility to the communities served resides at the core of the RWE, Thames, and American cultures, and that philosophy will be continued.

30. The transaction will not result in the subsidization of non-utility activities by New Jersey-American or its customers. New Jersey-American does not engage in a significant level of such activity. To the extent that New Jersey-American may engage in such activities in the future, it will continue to maintain its books to identify those costs and facilities that are properly included for ratemaking purposes.

31. New Jersey-American will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of New Jersey public utilities.

32. There is a situation unique to New Jersey because Thames Holdings already owns regulated water and wastewater utilities in New Jersey. Petitioners believe the consolidation

of Thames' and American's regulated utilities in New Jersey will result in cost reductions. If substantiated, these operating efficiencies will benefit customers in New Jersey over the long term, which supports consolidation as essential in the water utility business. Implementation can be accomplished only after the change in control is approved. However, Thames will present preliminary information concerning the consolidation of the New Jersey utilities as part of this proceeding. Thames is aware that the consolidation of the regulated New Jersey utilities would require Board approval. That approval may be sought by amending this Petition to seek that authority or filing another proceeding immediately following approval of the change in control.

33. All affiliated interest agreements approved by the Board to which New Jersey-American is a party will remain in effect unless or until the Board approves amended agreements.

34. The Petitioners have requested expeditious disposition of this matter. It will permit the companies to proceed to work toward achieving the benefits described above and it will mitigate the apprehension of employees attendant to delay.

NOTICE AND COMMUNICATIONS

35. A copy of this Petition has been served upon Blossom Peretz, Director, Division of the Ratepayer Advocate,

and a notice of this filing will be served upon the clerks of the municipalities served by New Jersey-American.

36. All correspondence and communications in connection with this proceeding are to be addressed to the following:

On behalf of Thames Holdings and RWE:

Anne S. Babineau, Esq.
Wilentz, Goldman & Spitzer, P.A.
90 Woodbridge Center Drive
P.O. Box 10
Woodbridge, New Jersey 07095
(732) 855-6057
ababineau@wilentz.com

and

On behalf of New Jersey-American:

William D. Lavery, Jr., Esq.
Cozen O'Connor
Liberty View, Suite 300
457 Haddonfield Road
P.O. Box 5459
Cherry Hill, NJ 08002
(856) 910-5020
wlavery@cozen.com

WHEREFORE, the Petitioners respectfully request:

A. That the Board issue an Order (i) approving the acquisition of control of New Jersey-American described herein as contemplated by the Agreement; and (ii) authorizing Thames Holdings, RWE and any other entity owned or controlled, directly or indirectly, by Thames Holdings and managed by Thames, to

acquire control of New Jersey-American, pursuant to N.J.S.A. 48:2-51.1 and, if found applicable, N.J.S.A. 48:3-10; and

B. That the Board handle this matter on an expeditious basis, retain the matter to itself and, if hearings are to be scheduled, it is respectfully requested that a member of the Board sit for the purposes of taking testimony in the proceeding as authorized by N.J.S.A. 48:2-32; and

C. That the Board issue a prehearing order establishing the dates for propounding and responding to discovery, dates for public hearing and, if deemed appropriate, the date for evidentiary hearing, as well as dates for filing of Comments or Briefs relating to this matter; and

D. Such other and further relief as the Board may deem appropriate or necessary.

Respectfully submitted,

WILENTZ, GOLDMAN & SPITZER
A Professional Corporation
90 Woodbridge Center Drive
P. O. Box 10
Woodbridge, New Jersey 07095
(732) 636-8000
Attorneys for Thames Water Aqua
Holdings GmbH and
RWE Aktiengesellschaft

By: _____
ANNE S. BABINEAU, ESQ.

Dated: December 21, 2001

COZEN O'CONNOR
457 Haddonfield Road
P.O. Box 5459
Cherry Hill, NJ 08002
(856) 910-5000
Attorneys for New Jersey-American
Water Company, Inc.

By: _____
William D. Lavery, Jr., Esq.

Dated: December , 2001

VERIFICATION

JAMES MC GIVERN, being duly sworn according to law,
upon his oath, deposes and says:

1. I am the Managing Director of Thames Water -
Americas and am authorized to make this Verification on behalf
of Thames Water Aqua Holdings GmbH.

2. I have read the contents of the foregoing Petition
and hereby verify that the statements therein contained are true
and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of December, 2001.

Notary Public

Thames Water Aqua Holdings GmbH

POWER OF ATTORNEY

We, the undersigned Thames Water Aqua Holdings GmbH, a company incorporated in accordance with the laws of Germany with registered number HRB 14447 Amtsgericht Essen and registered office situated at Opernplatz 1, 45128 Essen, Germany (the "Company").

hereby appoint

Mr. James McGivern
Managing Director of the Americas of
Thames Water Plc.

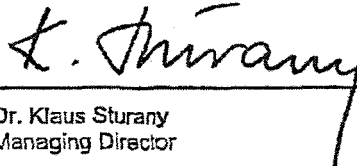
to be our agent and attorney with full power and authority to act for us and in our name to sign, execute, or otherwise deliver any petitions, applications, notices of intention, documents, agreements, stipulations, pleadings, verifications, or the like, on behalf of the Company with respect to obtaining all necessary approvals of any state public utility commission (or similar governmental agency) of the acquisition by the Company, or a wholly-owned subsidiary of the Company, of American Water Works Company Inc., Voorhees, New Jersey and its subsidiaries.

November 30, 2001

Thames Water Aqua Holdings GmbH



Dr. Richard R. Klein
Managing Director



Dr. Klaus Sturany
Managing Director

Geschäftsführer: Btl Alexander, Dr. Richard Klein, Dr. Klaus Sturany
Sitz der Gesellschaft: Essen - eingetragen beim Amtsgericht Essen, Handelsregister-Nummer HRB 14447
Postanschrift: im Hause RWE AG, Opernplatz 1, 45128 Essen; Postfach 10 30 61, 45630 Essen
Telefon: (0201) 12-00 - Telefax (0201) 12-1 51 99
Bankverbindung: Kto-Nr. 103 31 74 bei Deutsche Bank AG Essen, BLZ 389 700 50

VERIFICATION

ROBERT J. GALLO, being duly sworn according to law,
upon his oath, deposes and says:

1. I am the President of New Jersey-American Water
Company, Inc. and am authorized to make this Verification on
behalf of that company.

2. I have read the contents of the foregoing Petition
and hereby verify that the statements therein contained are true
and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of _____, 2001

Notary Public

RWE- CORPORATE PROFILE

RWE, Germany's fifth largest industrial group, is a leading international multi-utility provider with core businesses in electricity, water, gas and waste management and utility-related services. Essen, Germany-based RWEGroup has 12 major operating subsidiaries.

Within its core businesses, RWE today ranks:

- Electricity -- No. 1 in Germany, No. 3 in Europe.
- Water services -- No. 3 worldwide.
- Gas -- No. 2 in Germany
- Waste-management services -- No. 1 in Germany, No. 3 in Europe.

The Group ranks No. 1 in Germany and among the top 5 in Europe in utility-related services. RWE is also a leading trader of energy commodities, ranking it among the top three in Europe.

In the financial year 2000/2001 ended June 30, 2001, the Group's 170,000 employees worldwide generated sales of \$57 billion (63 billion Euros). Group EBITDA was approx. \$6 billion (6.6 billion Euros) and net income was approx. \$1.2 billion (1.3 billion Euros).

Selected Key Highlights of Groupwide Business Operations:

- Operates the most dense and extensive private power grid in Europe, with a length of 355,000 kilometers (approximately 222,000 miles).
- Generates more than 270 billion kilowatt hours of electricity annually for more than 8.9 million private and industrial customers and over 200 municipal power suppliers.
- In physical and financial power trading, generates volume of more than 300 Terawatt hours; the only German trader to deal in all energy commodities (electricity, coal, gas and oil)
- Sells approx. 220 billion kWh of natural gas annually.
- Full-service waste management company, serving more than 23 million customers (residential consumers and municipalities) and over 220,000 industrial customers in Germany alone
- Produces over 100 million tons of run-of-mine lignite per year, ranking the company as the largest lignite producer in the world.
- Manages in excess of 12 million tons of waste per year in Germany alone.
- Has launched the first powerline Internet access application in Germany, offering customers speeds up to 2 megabits per second
- Leading promoter of renewable energy (fuel cell technology as well as wind-, solar- and biomass-generated energy)
- Together with SiemensWestinghouse, has launched the first pilot plant for fuel cell system technology

CORE BUSINESS STRENGTHS

- Responsible action in offering customers and communities utility services worldwide
- Research and development of innovative technologies, products and services
- Investing in growth areas nationally and internationally

- Complete unbundling of power production chain in the electricity division
- Balanced utility portfolio with long-term growth potential
- Know-how and experience in liberalized utility markets



THAMES WATER - CORPORATE PROFILE

Thames Water is a global leader in water and wastewater treatment operations, products and services. The company is the *largest water/wastewater utility in the United Kingdom* and the *3rd largest water/wastewater services company in the world*. Thames Water and its international operations provide drinking water and wastewater treatment services to over 43 million people worldwide – including 12 million in and around the City of London. Thames Water operated as a public water authority prior to a successful transition to the private sector in 1989.

Thames Water is owned by the RWE Group, one of the world's largest multi-utility companies with annual revenues of \$48 billion and 172,000 employees.

SELECTED KEY countries	<ul style="list-style-type: none">• Global management and operation of over 540 water/wastewater facilities in 44 countries
HIGHLIGHTS OF operating BUSINESS OPERATIONS and	<ul style="list-style-type: none">• Extensive worldwide experience in various types of Public – Private Partnerships, contracts, and concessions, including the <i>world's largest wastewater treatment plant (Egypt)</i> and the <i>world's largest privately financed water treatment plant (Turkey)</i>• A specialist contracting business focused on operations and maintenance, rehabilitation facilities management• United States and United Kingdom based diversified products companies engaged in water/wastewater process equipment, membrane filtration, advanced separation systems, pipes, valves and fittings• Award winning centralized 24 Hour Operations/Customer Service Call Center in the United Kingdom handling over 9,000 customer calls each day• Completed one of the world's largest water main construction projects in the City of London• A significant and growing presence in the United States and North America
CORE facilities BUSINESS STRENGTHS	<ul style="list-style-type: none">• Comprehensive management and operations of water and wastewater treatment• Financial and Commercial Business Development• Engineering conceptual development and process design• Research and Development (served as Research Advisor for NASA)• Innovation in Operations, Engineering and Technology• Consultancy services, including training
CORPORATE HEADQUARTERS	London, England
EMPLOYEES	17,000 (includes RWE Aqua)

**ANNUAL
REVENUES**

\$3 billion (includes RWE Aqua)

AWARDS *ISO 9000, 9001, 9002 & 14001 Accreditations*; 10 national awards in the United Kingdom across a broad range of customer care, environment, safety, architecture, and the construction industry, including: the *Utility Week Achievement Award*; *Corporation of London's Considerate Contractor Streetworks Scheme - Gold Award*; *Index of Corporate Environmental Engagement*; *UK Government Charter Mark for Customer Service Excellence*; *Britain's Best Employers Award*

(1) Exhibit JP-1

(2)

(3)

(1) STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE JOINT PETITION :
OF NEW JERSEY-AMERICAN WATER : Docket No. _____
COMPANY, INC. AND THAMES WATER AQUA :
HOLDINGS GMBH FOR APPROVAL OF :
A CHANGE IN CONTROL OF NEW :
JERSEY-AMERICAN WATER COMPANY, INC. :

DIRECT TESTIMONY

OF

JAMES MC GIVERN

1 DIRECT TESTIMONY OF JAMES MC GIVERN

2
3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is James McGivern. My business address is 1025
5 Laurel Oak Road, Voorhees, New Jersey 08043.

6 Q. PLEASE STATE BY WHOM YOU ARE EMPLOYED AND WHAT POSITION YOU
7 HOLD.

8 A. I am employed by Thames Water Plc. ("Thames") I am
9 currently the Managing Director - Americas for Thames.

10 Q. PLEASE DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE.

11 A. From 1983 through 1986, I attended the University of
12 Reading in England where I earned a Law (LLB Hons) Degree.
13 In 1987 I was admitted as a Solicitor of the Supreme Court
14 of England and Wales working through the College of Law
15 Chancery Lane in London. From 1987 to 1991, I worked as a
16 solicitor in legal practices located in London and Sydney,
17 Australia.

18 I have been employed by Thames since 1991, starting in
19 its legal department where I worked until 1997, eventually
20 rising to head of Commercial Legal Services
21 (International). In 1997, I moved to the business side of
22 the company when I became the Commercial Director
23 responsible for business development activities of all
24 Thames Water Group Companies, both in the United Kingdom

Direct Testimony of James McGivern

1 and internationally. In 1999, I was promoted to Managing
2 Director - International Business Development. In that
3 position, I was responsible for managing all mergers and
4 acquisitions and, overseas development and coordination of
5 work undertaken by Thames' country directors. Most
6 recently, in 2001, I was appointed Managing Director-
7 Americas. A more detailed curriculum vitae is attached.

8 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

9 A. As Managing Director - Americas, I am responsible for all
10 Thames business interests in North, Central and South
11 America. That responsibility extends to accountability for
12 profit and loss of each operating unit, strategic
13 decisions, regional corporate development, and operational
14 performance.

15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

16 A. The purpose of my testimony is to provide the Board of Public Utilities
17 ("Board") with information regarding the manner in which New Jersey-American
18 Water Company, Inc. ("New Jersey-American") will be managed and operated after
19 the closing of the contemplated acquisition is completed. The details of this
20 transaction are set forth in the Petition and in the Agreement referenced
21 therein. In this testimony, I will show that the proposed transaction will
22 have no adverse impact on New Jersey-American's rates, service, employees and
23 competition. In fact, as discussed below, the proposed transaction offers many
24 potential benefits to New Jersey-American and its customers. More
25 specifically, I will provide to the Board information explaining how Thames
26 will preserve and build upon the excellent reputation and record of New Jersey-

Direct Testimony of James McGivern

1 American and American Water Works Company, Inc. ("American") after the
2 acquisition is completed.

3 Q. PLEASE DISCUSS THE TERMS OF THE AGREEMENT.

4 A. Pursuant to the terms of the Agreement, American will become a wholly-owned
5 subsidiary of Thames Water Aqua Holdings GmbH ("Thames Holdings") which, in
6 turn, is a wholly-owned subsidiary of RWE AG ("RWE"). New Jersey-American will
7 continue to be a subsidiary of American and will continue to exist as a New
8 Jersey public utility corporation subject to the jurisdiction and regulation of
9 the Board.

10 The Agreement provides that each issued and outstanding share of Common
11 Stock, par value \$1.25 per share, of American ("American Common Stock") not
12 owned by Thames Holdings, Apollo Acquisition Company ("Acquisition Corp.") or
13 American, other than shares owned by any holder who invokes appraisal rights
14 under Delaware law, shall be converted into the right to receive cash
15 consideration of \$46.00 per share.

16 As of September 30, 2001, the authorized capital stock of American
17 consists of (i) 300 million shares of American Common Stock, (ii) 1,770,000
18 shares of Cumulative Preferred Stock, par value \$25.00 per share (the
19 "Preferred Stock"), (iii) 750,000 shares of Cumulative Preference Stock, par
20 value \$25.00 per share (the "Preference Stock"), and (iv) 3 million shares of
21 Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential
22 Stock").

23 As of September 30, 2001, 99,971,542 shares of
24 American Common Stock (excluding shares held by American as
25 treasury shares), 101,777 shares of the Preferred Stock,
26 365,158 shares of the Preference Stock and no shares of the
27 Preferential Stock were issued and outstanding. The
28 Agreement requires American to redeem, prior to the closing
29 of the transaction, each outstanding share of the Preferred

Direct Testimony of James McGivern

1 Stock at a redemption price of \$25.25 per share, plus full
2 cumulative dividends thereon, and each outstanding share of
3 the Preference Stock at a redemption price of \$25.00 per
4 share, plus full cumulative dividends thereon. The
5 Agreement also provides that, at the time of the closing of
6 the transaction, each share of American Common Stock owned
7 by Thames Holdings, Acquisition Corp. or American shall
8 automatically be cancelled and cease to exist and no
9 consideration shall be delivered in exchange therefor.

10 In furtherance of the Agreement, RWE will provide
11 Thames Holdings with sufficient funds to consummate the
12 transaction.

13 The Agreement will affect none of the outstanding debt
14 owed and recorded as liabilities on the books of New
15 Jersey-American. Unless retired or redeemed in accordance
16 with its terms, all of that outstanding debt will continue
17 to be liabilities and obligations of New Jersey-American.
18 Likewise, none of New Jersey-American's assets will be
19 affected by the Agreement. That is to say, all of its
20 assets will continue to be assets of New Jersey-American.

21 Q. WILL THE ACQUISITION CHANGE NEW JERSEY-AMERICAN'S CORPORATE
22 STRUCTURE?

23 A. No. The transaction described in the Agreement involves
24 New Jersey-American's parent and therefore it will not

Direct Testimony of James McGivern

1 change the corporate form of New Jersey-American. It will
2 remain a public utility corporation subject to the
3 jurisdiction and regulation of the Board. As a result of
4 the transaction, instead of American's stock being held by
5 many individual stockholders, Thames Holdings will acquire
6 American's common stock, and American will become a wholly-
7 owned subsidiary of Thames Holdings which, in turn, is a
8 wholly-owned subsidiary of RWE. Thames Water Plc
9 ("Thames"), another subsidiary of RWE, operates Thames
10 Holdings' water business. A summary chart reflecting the
11 new organizational structure is attached hereto as
12 Attachment 2.

13 However, there is a situation unique to New Jersey
14 because Thames Holdings already owns regulated water and
15 wastewater utilities in New Jersey. We believe the
16 consolidation of Thames' and American's regulated utilities
17 in New Jersey will result in cost reductions. If
18 substantiated, these operating efficiencies will benefit
19 customers in New Jersey over the long term, which supports
20 consolidation as essential in the water utility business.
21 Implementation can be accomplished only after the change in
22 control is approved. However, Thames will present
23 preliminary information concerning the consolidation of the
24 New Jersey utilities as part of this proceeding. Thames is

Direct Testimony of James McGivern

1 aware that the consolidation of the regulated New Jersey
2 utilities would require Board approval. That approval may
3 be sought by amending this Petition to seek that authority
4 or filing another proceeding immediately following approval
5 of the change in control.

6 Q. PLEASE BRIEFLY SUMMARIZE THAMES' OPERATIONS AND EXPERIENCE.

7 A. Thames operates the water division of Thames Holdings,
8 bringing to Thames Holdings its extensive experience and
9 expertise as the largest water and wastewater company in
10 the United Kingdom and one of the largest water and
11 wastewater companies in the world, providing water-related
12 services to over 43 million people throughout the United
13 Kingdom, United States, Australia, China, Indonesia,
14 Malaysia, Puerto Rico, Turkey and other countries around
15 the world.

16 Q. PLEASE DESCRIBE HOW THIS ACQUISITION WILL AFFECT THE DAY-
17 TO-DAY OPERATIONS OF NEW JERSEY-AMERICAN?

18 A. RWE seeks to acquire American in large part due to
19 American's outstanding reputation for quality management
20 and operation of its subsidiaries, including New Jersey-
21 American. RWE and Thames have every intention of building
22 upon the solid foundation laid by New Jersey-American and
23 American. We recognize that water utility service by its
24 nature is a local business that cannot be properly managed

Direct Testimony of James McGivern

1 from a great distance. The proposed transaction will have
2 no adverse impact on the operation, safety and reliability
3 of the New Jersey-American system.

4 Q. WILL THE ACQUISITION ADVERSELY AFFECT NEW JERSEY-AMERICAN'S
5 ABILITY TO PROVIDE SAFE AND ADEQUATE UTILITY SERVICE AT
6 JUST AND REASONABLE RATES?

7 A. Absolutely not. The proposed transaction will not cause
8 any changes in the officers, active managers or employees
9 of New Jersey-American. After the closing of the
10 transaction, New Jersey-American will continue to have
11 management and operating personnel experienced and capable
12 to carry out the utility's obligation to render safe,
13 adequate and proper service. The preliminary information
14 mentioned in paragraph 32 of the Petition will include,
15 among other things, the impact of a merger of New Jersey-
16 American and Thames's other regulated water utilities.

17 Further, it is important to note that upon closing of
18 the transaction, American, located in Voorhees, New Jersey,
19 will be responsible for managing all of Thames' business
20 operations in North, Central and South America. Thames
21 will expand American's corporate headquarters in Voorhees,
22 New Jersey, to manage all of its business operations in
23 North, Central and South America. Thames plans on
24 continuing significant local representation on the Boards

Direct Testimony of James McGivern

1 of Directors of Americans' operating utilities. Any change
2 in the composition of the Board of Directors of New Jersey-
3 American as a result of this transaction will not lessen
4 the percentage of New Jersey residents on the Board.

5 Similar to American and New Jersey-American, Thames
6 understands that customer satisfaction is essential for
7 successful business operations. We share American's
8 commitment to maintaining and improving standards of
9 excellence throughout the New Jersey-American's service
10 territory. Stated another way, following this transaction,
11 New Jersey-American will continue to provide high-quality
12 water service that meets or exceeds New Jersey's regulatory
13 requirements. In addition, Thames is committed to ensuring
14 that New Jersey-American will continue to maintain an
15 adequate level of capital investment and best operating
16 practices sufficient to ensure safe and reliable water
17 service consistent with applicable law.

18 Q. IS THAMES COMMITTED TO ENSURING THE SECURE OPERATION OF NEW
19 JERSEY-AMERICAN'S EXISTING SYSTEMS?

20 A. We fully recognize and appreciate the increased
21 expectations in the United States in the water industry
22 regarding infrastructure security following the tragic
23 events of September 11. Thames pledges its unqualified
24 commitment to a comprehensive security plan not only during

Direct Testimony of James McGivern

1 the period of transition but also for the years to come. A
2 renewed emphasis on security is already well underway
3 throughout the American system. While many steps have been
4 taken to ensure the security of American's facilities,
5 Thames will implement additional measures whenever and
6 wherever appropriate. While, for obvious reasons,
7 specifics with regard to the companies' security
8 initiatives are highly confidential, the companies are
9 prepared to share their initiatives with appropriate
10 officials in a manner that will balance the mutual
11 objectives of comprehensive security planning and national
12 security.

13 Q. PLEASE DESCRIBE THE IMPACT OF THE PROPOSED TRANSACTION ON NEW JERSEY-AMERICAN
14 EMPLOYEES.

15 A. The transaction contemplated by the Agreement will not have an adverse impact
16 on the compensation of the New Jersey-American employees and the value of
17 employees' benefits will not be reduced. See paragraph 32 of the Petition
18 regarding the Petitioners' commitment to provide further information regarding
19 the impact of a merger of New Jersey-American and Thames's other regulated
20 water utilities which information will include an analysis of impact on
21 employees. After the closing of the transaction, the New Jersey-American
22 employees will have expanded opportunities for career advancement and
23 professional growth. Like American, Thames firmly believes in equipping its
24 employees with the skills and tools needed to perform at the highest possible
25 level. New Jersey-American's and American's employees are an important part of
26 providing of high quality customer service. This quality of service is also a
27 primary focus and priority for RWE and Thames, and, as previously stated, is
28 one of the reasons the companies are such a compatible combination.

Direct Testimony of James McGivern

1 Q. PLEASE DESCRIBE THE IMPACT OF THE TRANSACTION ON COLLECTIVE BARGAINING
2 AGREEMENTS.

3 A. There will be no changes in existing collective bargaining agreements as a
4 result of this transaction.

5 Q. WHAT, IF ANY, IMPACT WILL THE ACQUISITION HAVE ON NEW JERSEY-AMERICAN'S RATES?

6 A. The transaction will have no adverse impact on existing New Jersey-American
7 rates. New Jersey-American will continue to operate under its existing tariffs
8 and rate structure (until such time as such tariffs and rate structures are
9 revised in accordance with New Jersey law). The transaction is an acquisition
10 of the stock of American. None of the outstanding debt owed and recorded as
11 liabilities on the books of New Jersey-American will be affected by the
12 Agreement. The transaction will cause no changes in the balance sheet or
13 financial position of New Jersey-American. The transaction will not impair New
14 Jersey-American's ability to raise necessary capital on reasonable terms or to
15 maintain a reasonable capital structure. Further, the transaction will not
16 result in any adverse changes in New Jersey-American policies with respect to
17 customers, employees, operations, financing, accounting, capitalization, rates,
18 depreciation, maintenance, services or other matters affecting the public
19 interest or utility operations.

20 No request will be made to recover the acquisition premium or transaction
21 costs (i.e., investment banking fees, legal fees and other internal or outside
22 professional fees incurred as part of the preparation for the closing of the
23 transaction). Neither will there be any use of "push down" accounting to pass
24 such costs to New Jersey-American for recovery in rates. However, to the
25 extent that any parties seek the imposition of conditions in addition to the
26 commitments that are made herein, Thames reserves the right to argue
27 defensively that such conditions are inappropriate because of the considerable
28 costs associated with this transaction that are not being recovered.

29 All affiliated interest agreements approved by the Board to which New
30 Jersey-American is a party will remain in effect unless or until the Board
31 approves amended agreements. Costs incurred because of payments to affiliated
32 companies will be treated in accordance with affiliated interest agreements

Direct Testimony of James McGivern

1 approved by this Board to which New Jersey-American is a party and which will
2 remain in effect unless or until the Board approves amended agreements.

3 Subject to appropriate protection of confidential information, the books
4 and records of RWE and/or Thames will be made available to the Board to the
5 extent necessary for auditing of costs incurred by either that are allocated to
6 New Jersey-American for recovery in rates. Subject again to appropriate
7 confidentiality agreements, Thames will provide copies of Federal Income Tax
8 returns in those cases where New Jersey-American income is included in a
9 consolidated return with other subsidiaries of Thames or RWE. Finally, Thames
10 will comply with any Board requirements to make available personnel who are
11 familiar with the records identified above.

12 Q. PLEASE DESCRIBE THE IMPACT OF THE TRANSACTION ON COMPETITION?

13 A. The transaction contemplated by the Agreement will not adversely impact
14 competition because after the transaction is consummated New Jersey-American
15 will continue to serve its customers in its current franchise territories. The
16 classic concept of competition for customers does not exist in the regulated
17 water utility industry. The transaction will enhance the ability of New
18 Jersey-American and American to more effectively compete with the corporations
19 currently making acquisitions in the water industry. Under the Hart-Scott-
20 Rodino Antitrust Improvements Act of 1976, as amended, and the rules
21 promulgated thereunder by the Federal Trade Commission ("FTC"), the transaction
22 may not be completed until notifications have been given to the FTC and the
23 Antitrust Division of the United States Department of Justice and the
24 applicable waiting period has expired or been terminated. Thames will take the
25 steps necessary to comply with that Act in a timely fashion.

26 The transaction will not result in the subsidization of non-utility
27 activities by New Jersey-American or its customers. New Jersey-American does
28 not engage in a significant level of such activity. To the extent that New
29 Jersey-American may engage in such activities in the future, it will continue
30 to maintain its books to identify those costs and facilities that are properly
31 included for ratemaking purposes.

Direct Testimony of James McGivern

1 Q. PLEASE DESCRIBE THE RATIONALE BEHIND THAMES HOLDINGS' DESIRE TO ACQUIRE
2 AMERICAN.

3 A. As the third largest provider of water and wastewater
4 services in the world, Thames identified North America as a
5 market in which it should have a larger presence and
6 desired to grow its business there as rapidly as possible.
7 The American properties are attractive for their potential
8 for future growth, their operations in 28 states and Canada
9 serving approximately 12 million people, and the fact that
10 they are well managed. Accordingly, the acquisition of
11 American represents an excellent opportunity to
12 substantially increase Thames presence in North America
13 consistent with its philosophy of delivering quality
14 service to its customers. Just as it was important for
15 Thames Holdings to substantially increase operations in
16 North America, any operator in North America must recognize
17 the importance of a presence in New Jersey. For this
18 reason, New Jersey-American is an important component of
19 the American acquisition by Thames Holdings.

20 Q. CAN YOU PROVIDE SOME EXAMPLES OF THE BENEFITS ACHIEVABLE THROUGH THIS
21 ACQUISITION?

22 A. Yes. New Jersey-American stands to benefit from the
23 combination of the best practices of both the American
24 system and that of Thames. In terms of customer support
25 and service, we anticipate that New Jersey-American

Direct Testimony of James McGivern

1 customers will benefit when two industry leaders share such
2 practical knowledge and experience. The benefits to be
3 realized by New Jersey-American and its customers include
4 the following:

5 Security

6 Since the tragic events of September 11th, a renewed
7 emphasis on security has been underway and American has
8 been reviewing the security measures in place throughout
9 its system. As a result of this review, New Jersey-
10 American is evaluating and implementing new methods and
11 procedures to ensure the security of its operations.
12 Thames, with water operations around the globe, has
13 considerable experience in operating water facilities and
14 systems in regions where security concerns have been a fact
15 of life for some time. For example, Great Britain has been
16 subject to threat by IRA factions for decades, and by
17 terrorists in the Middle East since the Gulf War. I firmly
18 believe New Jersey-American, and ultimately our customers,
19 will significantly benefit from the sharing of Thames'
20 extensive experience in developing and implementing
21 comprehensive security measures to protect its customers
22 and employees throughout the world. Thames stands ready
23 and willing to utilize its expertise to enhance New Jersey-
24 American's security efforts. Although we will remain

Direct Testimony of James McGivern

1 separate independent companies until the transaction
2 closes, I look forward to beginning the exchange of best
3 practices as soon as possible. One important area for such
4 an exchange may be within the scope of facility security, a
5 topic that has come to the fore in the aftermath of
6 September 11. American, Thames and RWE happen to be the
7 leading stewards of water quality and safety on the two
8 sides of the Atlantic Ocean. We are making security one of
9 the items that our joint integration team focuses on as it
10 moves ahead. Both companies pledge their unqualified
11 commitment to a comprehensive security plan not only during
12 the period of transition but also for the years to come.

13 Environmental Matters

14 Further, both companies recognize the importance of
15 conducting their operations in an environmentally
16 compatible manner, and as such, actively promote nature
17 conservation on their sites. American and its subsidiaries
18 have a strong environmental track record that will be
19 further enhanced through its association with Thames.
20 American consistently achieves outstanding records of
21 annual compliance with Federal and State Regulations.
22 American's subsidiaries have received 47 awards from the
23 U.S. Environmental Protection Agency Partnership for Safe
24 Water. Thames is also committed to environmental

Direct Testimony of James McGivern

1 protection. Numerous Thames sites have received the
2 internationally recognized ISO 14001 Environmental
3 Standard. Thames also works with and supports a wide range
4 of environmental and conservation groups internationally,
5 in part by voluntarily conducting surveys that will assist
6 these groups in implementing biodiversity protection
7 projects. Additionally, Thames utilizes "green energy,"
8 with seventeen combined heat and power plants running bio-
9 gas and two sludge-powered generators. The transaction
10 will allow American and Thames to join together to continue
11 to enhance environmentally-friendly service for the
12 company's customers.

13 Service Standards

14 Additionally, in the area of service standards,
15 American has earned an enviable reputation throughout the
16 United States. It maintains its facilities in superior
17 condition, and the company continues to ensure safe,
18 reliable and high-quality service to its customers through
19 capital investment in its infrastructure. Similarly,
20 Thames is committed to excellence in its water quality and
21 service standards throughout the world. The Thames track
22 record of compliance with drinking water standards in the
23 UK is now 99.89%, while wastewater effluent compliance is
24 99.99%. Since privatization in 1989, Thames has invested

Direct Testimony of James McGivern

1 in excess of \$6 billion in enhancing the quality of its
2 service, including construction of an advanced water
3 treatment system and major renovations of water mains and
4 sewage treatment works. Throughout its system, Thames has
5 established numerous programs to improve the quality of its
6 service, including cost-optimized network renewal and
7 refurbishment and the development of ultra-violet
8 disinfection of drinking water. Thames has every intention
9 of continuing the long and proud service that has come to
10 be expected of American generally, and New Jersey-American
11 in particular.

12 Customer Service

13 For many years, both companies have demonstrated their
14 strong commitment to customer service and responsiveness.
15 New Jersey-American is dedicated to providing its customers
16 with continuous customer service. Its parent corporation,
17 American, recently opened a state-of-the-art Customer
18 Service Center located in Alton, Illinois to assist its
19 customers 24 hours a day. Likewise, Thames also has a 24-
20 hour customer service center that has won the UK Utility
21 Industry Achievement Award for Excellence three years in a
22 row. One of the key customer service issues facing the
23 utility industry is integration between the call center and
24 the field service function. Thames has developed and

Direct Testimony of James McGivern

1 implemented an integrated approach to service management
2 inquiries by installing the latest information technology
3 for mobile field applications. This provides a direct,
4 real-time link between the system in use in the Call Center
5 and the technicians in the field. This real-time
6 connection delivers critical Geographic Information Systems
7 ("GIS"), providing work management system data. The
8 customer benefits by having problems ascertained, analyzed,
9 and addressed by field personnel in a more accurate and
10 efficient manner. This new system results in a much more
11 professional and problem-free service. It also reduces the
12 need for customers to make repeated calls to different
13 parts of the organization. American will take advantage of
14 Thames' experience to implement a similar service, thereby
15 improving service and reducing the time and cost of
16 delivery. Together, these two quality corporations will
17 continue this commitment to have a goal of enhancing
18 customer service by utilizing the best practices of both
19 organizations.

20 Research and Development

21 In the area of research and development, American and
22 Thames are both recognized industry leaders. The pooling
23 of our collective expertise will make the combined entity a
24 world leader in this area. Notably, Thames has an annual

Direct Testimony of James McGivern

1 research and development budget of \$13 million. Thames has
2 developed cutting-edge technologies in all areas of
3 transmission and distribution. In addition, Thames has a
4 technological focus on alternative treatment solutions such
5 as desalination and water reuse projects. This experience
6 will be invaluable to help New Jersey-American meet future
7 challenges and in reducing future capital expenditures as
8 the New Jersey-American's infrastructure ages.

9 Community Service

10 The transaction will positively impact community
11 development in the areas served by New Jersey-American.
12 Thames, RWE, and American all share a long history of
13 service in the communities where they operate. For
14 American, financial contributions to the community are
15 usually focused on environmental programs, as well as on
16 initiatives that support the next generation of community
17 leaders. American's involvement goes far beyond financial
18 support. The company routinely involves the personal
19 participation and leadership of employees in important
20 community programs. Thames also has a long and illustrious
21 track record of investing in local communities,
22 particularly in support of the environment and extra-needs
23 customers. Thames supports its employees' involvement in
24 community groups through a payroll program called "Give as

Direct Testimony of James McGivern

1 you Earn." In this program, Thames matches up to \$3,000 in
2 charitable contributions raised by teams of employees.
3 Additionally, RWE participates in numerous community-
4 oriented projects around the globe. It sponsors a variety
5 of projects in areas ranging from promoting arts and
6 culture to programs modernizing the water infrastructure in
7 developing countries. Companies such as American, RWE, and
8 Thames understand that a good reputation must be earned.
9 They also understand that it takes a great deal of work and
10 commitment to maintain such reputations. Clearly, the
11 philosophy of corporate responsibility resides at the core
12 of the RWE, Thames and American cultures, and the
13 philosophy will continue.

14 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

15 A. Yes. On behalf of Thames, the entity responsible for RWE's
16 water operations, we look forward to continued operation,
17 maintenance and growth of New Jersey-American, as part of
18 the American system that has provided good service to New
19 Jersey customers in the past.

CURRICULUM VITAE

Name: McGIVERN James

Profession: Solicitor/Managing Director Nationality: British
Discipline: Commercial/Financial Date of Birth: 1/3/1965
Specialisation: Business/Operational Affairs
Years of Relevant Experience: 14 years

Academic & Professional

Qualification:

1986-1987 Qualified as Solicitor of Supreme Court of England and
 Wales
 College of Law Chancery Lane London
1983-1986 Law (LLB Hons) Degree 2:1
 University of Reading (1983 - 1986)

Overseas Experience: Business Experience of water and
 wastewater projects in Asia, Europe and the
 Americas. From both a UK base and Australian
 base.

Experience Record:

1991 to date Thames Water Plc - London

2001 to date Managing Director - Americas

After a transitional period of acting as sole managing director of Thames Water's international business, has recently been appointed as Managing Director of all of Thames Water's business interests in North and South America. This includes accountability for profit and loss, strategy, regional corporate development and operational performance. The post is located in the USA.

1999 to 2001 Managing Director - International Business Development

Responsible for International business and corporate development within Thames Water Plc, including the management of all mergers and acquisitions, overseas development and the co-ordination of the work undertaken by Thames Water's country directors. Key accountability is to develop and close opportunities for growth in those countries identified as strategically important for the Thames Water Division.

1997 - 1999 Commercial Director - Thames Water Plc

Head of multi-disciplinary commercial team (legal, financial, bid managers) with responsibility to support business development activities of all Thames Water Group Companies, both in the UK and Internationally. Specifically focused on leading the management and approval of all external tenders.

1994 - 1997 Head of Commercial Legal Services (International)

Responsible for key legal and related risk management issues for Thames Water's international business activities worldwide. Head of legal team involved in all international contracts.

1991 - 1994 Commercial Lawyer Thames Water Group

Part of legal team responsible for all legal aspects of non-regulated business (Products, Services, Contracting) in both UK and international with primary focus on International contracts, UK contracting, and Products business.

1989 - 1991 Michell Sillar - Sydney
Solicitor (Commercial)

Solicitor in medium sized Sydney commercial legal practice, dealing with a whole range of commercial legal issues from mergers and acquisitions to regulatory and competition issues.

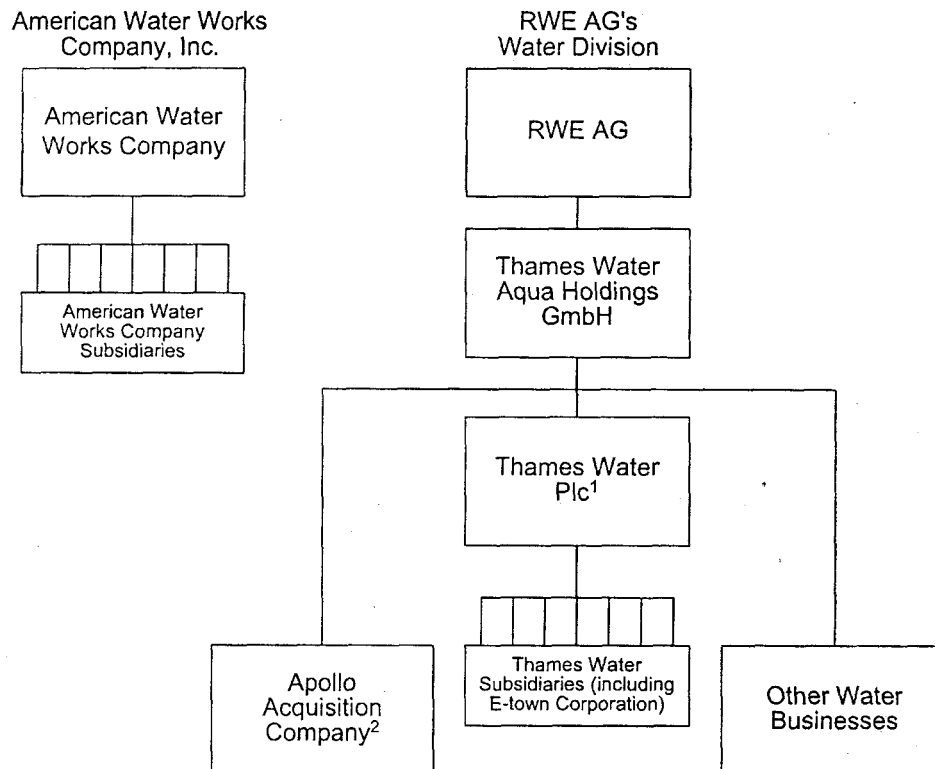
1987 - 1989 Denton Hall - London
Solicitor (Commercial and Banking)

Solicitor in large London legal practice specialising in Commercial and Banking matters, responsible for legal advice to mainly Blue Chip clients ranging from UK footsie 100 companies

to International banks. Areas of expertise included M&A,
structured lending, commercial transactions.

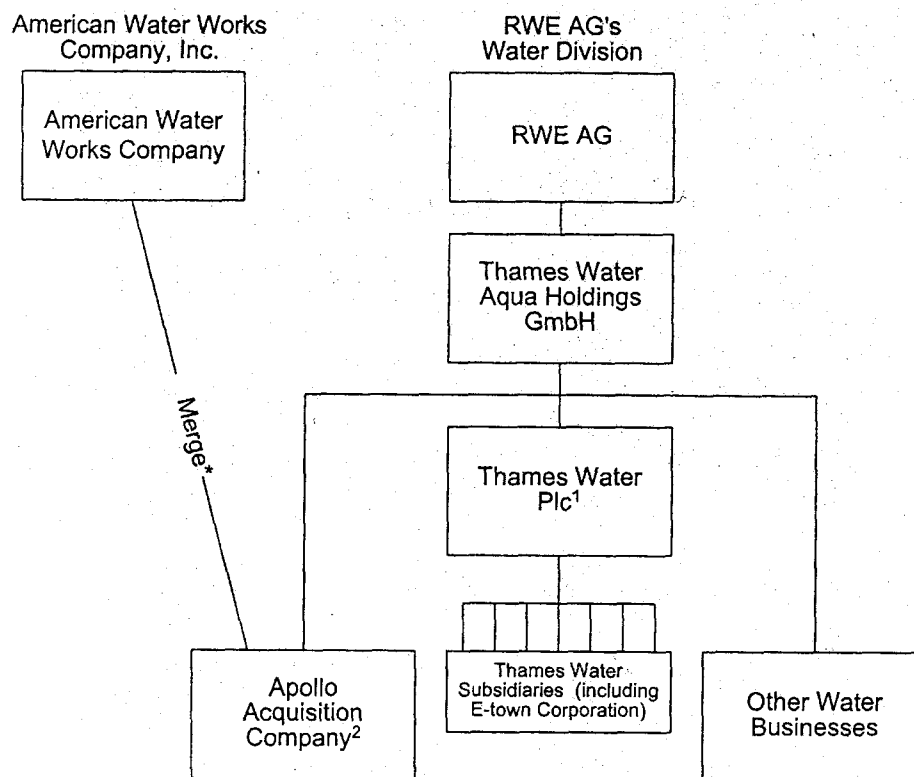
Diagram of Steps in Thames'/RWE's
Acquisition of American Water
Works Company

The Present Situation



1. Thames Water Plc operates (through its officers and employees) all of the water business of Thames Water Aqua Holdings GmbH's current and future subsidiaries, including American Water Works Company's utility subsidiaries upon completion of the transaction.
2. Owned directly by Thames Water Aqua Holdings GmbH or by an intermediary holding company which will be owned directly by Thames Water Aqua Holdings GmbH.

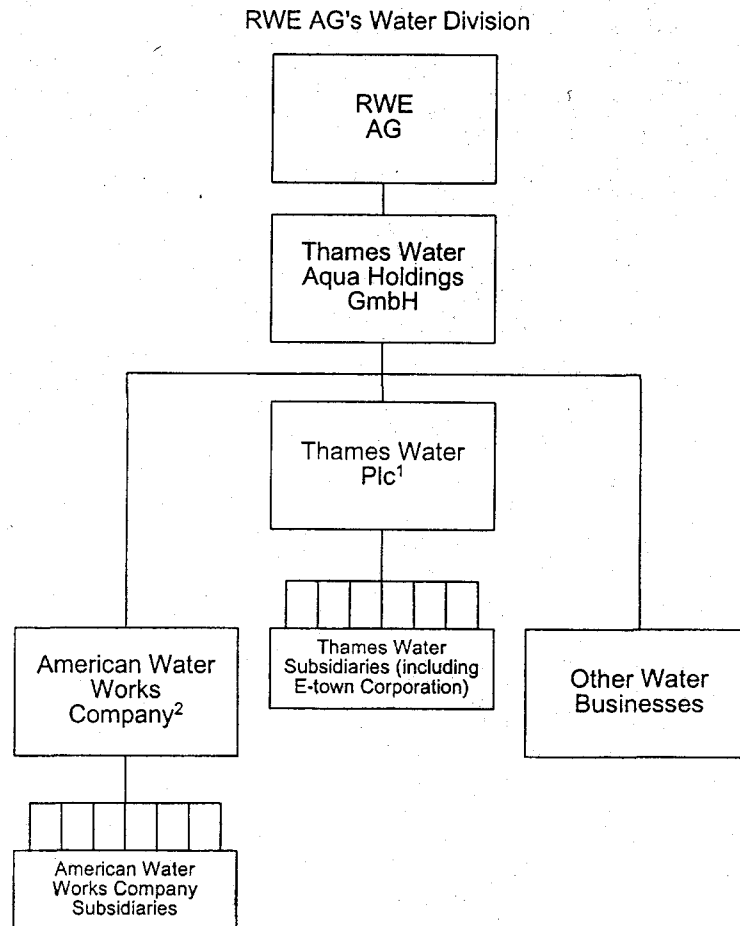
Transaction



1. Thames Water Plc operates (through its officers and employees) all of the water business of Thames Water Aqua Holdings GmbH's current and future subsidiaries, including American Water Works Company's utility subsidiaries upon completion of the transaction.
2. Owned directly by Thames Water Aqua Holdings GmbH or by an intermediary holding company which will be owned directly by Thames Water Aqua Holdings GmbH.

* Apollo Acquisition Company merges into American Water Works Company. American Water Works Company is the surviving corporation. By operation of law, the assets and liabilities of each are combined in the surviving corporation, American Water Works Company. All property is held by American Water Works Company. Each outstanding share of common stock of American Water Works Company is converted into the right to receive the transaction consideration, which is \$46 per share in cash.

Post-Transaction



1. Thames Water Plc operates (through its officers and employees) all of the water business of Thames Water Aqua Holdings GmbH's current and future subsidiaries, including American Water Works Company's utility subsidiaries upon completion of the transaction.

2. Owned directly by Thames Water Aqua Holdings GmbH or by an intermediary holding company which will be owned directly by Thames Water Aqua Holdings GmbH.

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE JOINT

BPU DOCKET NO.

PETITION OF NEW JERSEY-AMERICAN :

WATER COMPANY, INC. AND THAMES :

WATER AQUA HOLDINGS GMBH FOR :

APPROVAL OF A CHANGE IN CONTROL :

OF NEW JERSEY-AMERICAN WATER :

COMPANY, INC. :

DIRECT TESTIMONY OF

ROBERT J. GALLO

Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A: My name is Robert J. Gallo. My business address is 500 Grove Street, Haddon Heights, New Jersey.

Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A: I am employed by New Jersey-American Water Company, Inc. ("NJAWC") as President.

Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A: I received a B.S. degree in Civil Engineering from Worcester Polytechnic Institute in 1968. Thereafter I served three years as a commissioned officer in the United States Army. Upon leaving the Army, I was employed by the Connecticut Department of Public Utility Control as an engineer and later as a senior rate specialist. I have a Master's Degree in Business Administration from the University of Connecticut and I am a registered Professional Engineer in the State of Connecticut. I joined the American Water Works Company ("American") system in 1981 as Director - Rates and Revenue of the then Eastern Region office of the American Water Works Service Company ("Service Company"). As Director - Rates and Revenue, I was

responsible for all rate case activities for American system companies in New Jersey, Connecticut and New York. In 1988 I was named Manager of Finance for the Service Company's Eastern Region and assumed additional responsibilities in the areas of accounting, finance and information systems. In January 1994 I was named President of a regional group of American subsidiaries in 11 states which provided service to more than 377,000 customers. In February 1999 I was named President of NJAWC, which is the second largest subsidiary of American. In January 2000 I also was named President of American subsidiaries in Connecticut, New Hampshire, New York and Massachusetts.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: The purpose of my testimony is to describe generally the nature of the RWE Aktiengesellschaft ("RWE")- American transaction that will result in an indirect change in control of NJAWC, the factors that motivated American to pursue this transaction, some of the challenges that the water industry in the United States faces and some of the benefits that will accrue once this transaction has been consummated.

Q: COULD YOU PLEASE DESCRIBE FOR US GENERALLY THE BUSINESS OF AMERICAN.

A: American is a publicly-traded Delaware corporation headquartered in Voorhees, New Jersey. The principal business of American is the investment in and ownership of the common stock of operating water and wastewater utility companies, like NJAWC, that provide quality water and wastewater service to millions of consumers in the United States and in three Canadian Provinces. American and its subsidiaries now have approximately 6,300 employees and provide water, wastewater and other water resource management services to a population of approximately twelve million in 28 states and in three Canadian Provinces. Additionally, American recently received the necessary approvals from Arizona, California, Illinois, Indiana, Ohio and Pennsylvania for the purchase of the water and wastewater assets of Citizens Communications Company.

Q: PLEASE DESCRIBE NJAWC AND ITS BUSINESS.

A: NJAWC is a wholly-owned subsidiary of American and is a part of the Northeast Region of the American system. NJAWC provides water service and sewer collection

service to over 1 million people throughout 15 counties in 123 municipalities in the State of New Jersey. NJAWC's sources of water supply are a combination of groundwater, surface water and purchased water.

Q: PLEASE DESCRIBE THE TRANSACTION WHICH WILL RESULT IN THE CHANGE IN CONTROL OF NJAWC AND FOR WHICH THE JOINT PETITIONERS SEEK APPROVAL THROUGH THIS PETITION.

A: The basic transaction is a sale of all of American's stock to a subsidiary of RWE and the merger of American into an RWE subsidiary. American will be the surviving entity and will be wholly-owned by Thames Water Aqua Holdings GmbH ("Thames Holdings"). Thames Holdings is a wholly-owned subsidiary of RWE. Thames Holdings also currently owns other water and wastewater utilities in New Jersey. This Joint Petition by NJAWC and Thames Holdings, on behalf of itself and its parent holding company RWE, seeks approval of the change in control of NJAWC as contemplated in accordance with an Agreement and Plan of Merger ("Agreement"), dated September 16, 2001, by and among RWE, American, Thames Holdings and Apollo Acquisition Company ("Acquisition Corp.").

Acquisition Corp. is a Delaware corporation and wholly owned subsidiary of Thames Holdings created solely for the purpose of implementing the Agreement. The Agreement provides that, subject to obtaining certain regulatory approvals and other conditions, Acquisition Corp shall be merged with and into American, the parent of NJAWC, with American to be the surviving post-merger corporation. American will continue its corporate existence under Delaware law as a wholly-owned subsidiary of Thames Holdings. NJAWC will continue to be the operating public utility providing water utility service under the jurisdiction of the New Jersey Board of Public Utilities' ("BPU") in the New Jersey service areas where NJAWC is presently authorized to do so. NJAWC will continue its corporate existence under New Jersey law.

Q: WILL THERE BE ANY ADVERSE IMPACT ON NJAWC CUSTOMERS OR ON NJAWC ITSELF AS A RESULT OF THE PROPOSED CHANGE IN CONTROL?

A: The transaction will have no adverse impact on existing New Jersey-American rates. Subsequent to the change in control, NJAWC will continue to operate in its existing service territories under its existing

BPU approved tariff. No changes will occur in the balance sheet or financial position of NJAWC as a result of this transaction, nor will there be any change in the outstanding debt or other liabilities of NJAWC.

Q: PLEASE DESCRIBE THE IMPACT OF THE CHANGE IN CONTROL TRANSACTION UPON NJAWC'S OPERATIONS AND ITS ABILITY TO PROVIDE SAFE, ADEQUATE AND PROPER UTILITY SERVICE.

A. To the best of my knowledge, there will be only positive impacts on NJAWC and its operations. NJAWC will continue to have a proven management team along with enhanced capability to provide safe, adequate and reliable service to the public. I believe that the transaction will allow for the combination of resources and expertise that will, among other things, create opportunities for sharing best operating practices, provide increased access to capital markets, provide opportunities for enhanced research and development and increase the opportunities for growth in the water and wastewater markets. Finally, I expect no changes in any of NJAWC's policies with respect to customers, employees, operations, financing, accounting, capitalization, rates,

depreciation, maintenance, services and any other matters affecting the public interest or utility operations as a result of this transaction.

Q: WILL THE TRANSACTION HAVE ANY IMPACT UPON NJAWC'S COLLECTIVE BARGAINING AGREEMENTS?

A: The change in control will cause no change in any collective bargaining agreements.

Q: WILL THE CHANGE IN CONTROL TRANSACTION AFFECT ANY OF NJAWC'S OBLIGATIONS UNDER CONTRACTS WITH CUSTOMERS OR UNDER ANY AFFILIATED INTEREST AGREEMENTS?

A: No. NJAWC will continue to honor all of its customer and regulatory obligations. The Service Company agreement, to which NJAWC is a party and which has been approved by the BPU, will remain in effect unless or until this agreement is terminated and/or the BPU approves either an amended or new agreement.

Q: WILL THE TRANSACTION HAVE AN ADVERSE IMPACT ON NJAWC'S ABILITY TO RAISE NECESSARY CAPITAL ON REASONABLE TERMS OR TO MAINTAIN A BALANCED CAPITAL STRUCTURE?

A: No. To the contrary, the transaction is expected to enhance American's and, therefore, NJAWC's ability to

raise necessary capital on reasonable terms and to maintain a reasonable capital structure.

Q: WILL THIS TRANSACTION HAVE ANY ADVERSE IMPACT ON COMPETITION IN NEW JERSEY?

A: No. The transaction will not adversely impact competition because after the transaction is consummated NJAWC will continue to serve its customers in its current franchise territories. The classic concept of competition for customers does not exist in the regulated water utility industry. The transaction will enhance the ability of New Jersey-American and American to more effectively compete with the corporations currently making acquisitions in the water industry. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules promulgated thereunder by the Federal Trade Commission ("FTC"), the transaction may not be completed until notifications have been given to the FTC and the United States Antitrust Division of the Department of Justice and the applicable waiting period has expired or been terminated. Petitioners will take the steps necessary to comply with that Act in a timely fashion.

Q: ARE THERE ASPECTS OF NJAWC'S BUSINESS THAT MAY BE ENHANCED FOLLOWING CONSUMMATION OF THIS TRANSACTION?

A: Yes. First, NJAWC, like other operating companies of American, has, since the tragic events of September 11th, been conducting a review of security measures throughout its system. As a result of that review, new or enhanced security measures and programs have been and will continue to be implemented. Thames Holdings, with water and other utility operations around the globe, has considerable experience in operating water facilities and systems and other utilities in regions where, for some time, security concerns have been a fact of life. I believe that Thames Holdings' experience in this regard will benefit American and NJAWC both in developing new and in enhancing existing security programs and measures.

Second, American has a long standing policy to seek out opportunities that have the potential to enhance customer service and value through beneficial acquisitions that strengthen NJAWC's financial capability. NJAWC has over the years acquired a number of small New Jersey water systems. Some of the

benefits NJAWC can offer water systems considering an acquisition are: (a) enhanced access to capital; and (b) an increased ability to retain and attract professional and technical talent. The transaction contemplated herein will further enhance NJAWC's position in each of these areas because it will provide NJAWC with enhanced access to capital and a greater capability to offer career path development and training to its personnel.

Q: WHAT IS THE STATUS OF APPROVALS REQUIRED FOR THE AGREEMENT TO BECOME EFFECTIVE?

A: The Agreement has been approved by the boards of directors of RWE, Thames Holdings and American. The Agreement is specifically conditioned upon, among other things, obtaining (a) necessary regulatory approvals, including the approval of the BPU, and (b) the approval of American shareholders. American's shareholders will vote on that approval at a shareholders' meeting scheduled for January 17, 2002.

Q: HOW WILL THE TRANSACTION IMPACT AMERICAN?

A: American's operations in the United States will remain as they are today. The corporate headquarters will

remain in Voorhees, NJ but will be expanded to manage all of the Thames Water businesses in North, Central and South America.

Q: PLEASE DESCRIBE SOME OF THE CHALLENGES FACING THE WATER INDUSTRY.

A: Over the next two to three decades, much of this country's drinking water and wastewater infrastructure will have to be replaced because it is approaching or has already exceeded its useful life. Additional investment in plant and increases in operating and maintenance costs are necessary due to more rigorous standards and other requirements of the Safe Drinking Water Act ("SDWA") and Clean Water Act. The SDWA, for example, already requires monitoring and treatment of numerous potential contaminants. However, the SDWA also requires the United States Environmental Protection Agency ("USEPA") to identify and establish standards for additional potential contaminants.

A number of reports have sought to identify the massive capital dollars that will be required to address water infrastructure needs over the next 20-30 years. For example, a February 2001 USEPA study

(prepared every four years), based on 1999 data, estimates infrastructure investment needs nationwide between 1999 and 2019 to exceed \$138 billion to meet requirements of the SDWA. The equivalent figure for New Jersey is \$ 3.7 billion. The American Water Works Association has testified before Congress that it believes that the total drinking water infrastructure need is in the \$325 billion range (in 1998 dollars) in capital investment. A May 2001 AWWA study, "Reinvesting in Drinking Water Infrastructure," studied 20 utilities and states, at page 5 therein, as follows: "[E]xpenditures on the order of \$250 billion over 30 years might be required nationwide for the replacement of worn out drinking water pipes and associated structures (valves, filters, etc.). This figure does not include wastewater infrastructure or the cost of new drinking water standards." That study made a number of important findings. Two of those findings are:

Overall, in the 20 utility study, infrastructure repair and replacement requires additional [expenditures] revenue totaling about \$6 billion above current spending over the next 30 years. This ranges from about \$550 per

household to almost \$2,300 per household over the period. These household impact figures do not include compliance with new regulations or the cost of infrastructure replacement and compliance for wastewater.

* * *

Household impacts will be two to three times greater in smaller water systems (\$1,490 to \$6,200 per household over 30 years) due to disadvantages of small scale and the tendency for replacement needs to be less spread out over time.

(May 2001 AWWA Study at 6,7, & 18)

Under any scenario, it is clear that massive infrastructure investment will be needed and increases in operating and maintenance expenses will occur in the future.

Further, in the post-September 11, 2001 world, significant new expenses have been and will necessarily be incurred by water utilities to enhance the security of their water supply infrastructure. Assuring the security of NJAWC's widely-dispersed and relatively accessible assets is a major undertaking. RWE/Thames currently conducts water operations across the globe, including in many regions where for some time security concerns have been a fact of life. As a

result, RWE/Thames has extensive experience in developing and implementing comprehensive security measures to protect its systems and customers throughout the world. NJAWC and its customers will benefit from that experience and expertise.

Q. DOES THE BASIC STRUCTURE OF THE WATER INDUSTRY POSE PARTICULAR PROBLEMS TO MEETING THESE CHALLENGES?

A: Yes. The water industry in the United States is highly fragmented. There are approximately 54,000 community water systems in this country, the vast majority of which are small and often financially and technologically nonviable. In addition, the water supply industry is more capital intensive than any of the other public utility services typically regulated by state public utility commissions. The 2001 edition of CA Turner Reports demonstrates the high capital intensity of the water industry compared to other utility sectors. On a net plant basis, water utilities require \$3.53 of investment to produce \$1 of revenue. In contrast, electric utilities require \$1.34 of investment revenue per dollar, gas distribution utilities require \$1.23 of investment

revenue per dollar and telephone utilities require \$1.69 per revenue dollar.

Q. HOW HAVE THESE CHALLENGES AFFECTED THE WATER INDUSTRY IN THE U.S.?

A: These and other challenges have led to an ongoing restructuring of the water industry through consolidations, mergers and acquisitions, as well as increasing interest in privatization of government-owned systems through acquisitions or operations and maintenance contracts, and other cooperative, partnering arrangements between government and investor-owned systems. These challenges and opportunities have also led to significant investment in U.S. water companies by foreign corporations such as by Thames Water in Elizabethtown Water Co.; by the French Company, Ondo (Suez), in United Water Resources; in Aquarion by Kelda, also a British company; in Philadelphia Suburban Water Corp. by Vivendi; and Nuon, a Dutch company, in Utilities, Inc.

Q: WHAT ARE THE IMPLICATIONS OF THESE CHALLENGES FOR THE U.S. WATER INDUSTRY?

A: These infrastructure requirements and increasing quality standards and security enhancement issues result in severe pressure on the water industry to increase its ability to attract capital as well as its technical and operating capabilities. There is also an obligation on the part of water service providers to do so in a manner that minimizes costs to consumers, consistent with the quality service they have a right to expect.

A 1993 NRRI Report emphasized the responsibility of both water utilities and regulators to facilitate achievement of long-term quality service in a least cost manner:

"The changing cost profile of the water utility industry marks a 'coming of age' for the industry and a new era in water utility regulation. All water utilities, regardless of ownership structure or size, must begin to plan how they will meet additional revenue requirements. Strategic planning, therefore, should become a priority for water utilities and water utility regulators."

(Meeting Water Utility Revenue Requirements: Financing and Ratemaking Alternatives, NRRI November 1993, p. 206)

American's policy of pursuing consolidation through mergers and acquisitions has been integral to its strategic planning for the future and essential to fulfill its responsibilities to its customers and shareholders.

Q: DOES NEW JERSEY-AMERICAN HAVE AN OVERALL ACQUISITION STRATEGY?

A: Yes. New Jersey-American has had a long-standing policy to seek out opportunities to grow and strengthen the financial capability of the existing subsidiaries and the acquired systems so that both will be better able to meet their public service obligations and maintain future financial viability.

Q. WHY HAS NEW JERSEY-AMERICAN PURSUED A POLICY OF ACQUISITIONS?

A: New Jersey-American's motivations are essentially twofold. First, in the face of huge capital investment requirements resulting from infrastructure replacement needs and constantly expanding water quality and other standards, and now enhanced security needs, achievement of more effective economies of scale through consolidation resulting from mergers and

acquisitions has been absolutely essential to achievement of New Jersey-American's goal of providing high quality water service to customers in a least cost manner. Second, the value brought to customers through consolidation has been necessary to protect and increase long-term shareholder value. These customer and shareholder goals are not only consistent with each other, they are also mutually dependent. One goal cannot be achieved without achieving the other.

Q: HOW WILL THE TRANSACTION FURTHER THESE GOALS AND BENEFIT CUSTOMERS?

A: First, the transaction will permit selection of the best management practices from two companies and other skills so that the whole will operate more efficiently than either of the companies standing alone.

Secondly, RWE, Thames and American will be in a better position to continue their participation in the ongoing water industry consolidation. Such consolidation will further enhance the ability to be better positioned to expand and accelerate the

acquisition of small New Jersey water and wastewater systems.

Thirdly, the transaction will enhance the ability to fund increasing infrastructure needs driven by aging plant, technology changes and increasingly rigorous water quality, security and other requirements.

Fourth, RWE will bring to American and NJAWC the benefits of its long experience in addressing issues of security of its resources to protect our public water supplies.

Fifth, employees of NJAWC will have even greater opportunities for professional development and career path enhancements. Being part of a larger international operation, our employees will also have access to international assignments and challenges not otherwise available.

Q: WHY HAVE THE JOINT PETITIONERS ASKED THE BPU TO HANDLE THIS MATTER ON AN EXPEDITIOUS BASIS?

A: The consummation of the transaction and realization of the benefits to be derived from it, as discussed in the Petition and the testimony, will be realized more

expeditiously if the matter is considered by the BPU as quickly as possible. Every effort will be made to provide the Board and parties with all of the information and assurances that are required to enable the prompt disposition of this matter. This is a transaction that involves publicly traded companies and utility operations across about half of the states of this country. Accordingly, there is great benefit to the certainty that will be achieved by an expeditious resolution of this matter for all of the stakeholders involved, which include ratepayers, employees, communities and shareholders. For those reasons, we respectfully request that the BPU process this matter and issue the requested relief on an expedited basis.

Q: DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A: Yes.

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

-----X
: DOCKET NO.:
IN THE MATTER OF THE JOINT PETITION OF :
E'TOWN CORPORATION AND CERTAIN :
SUBSIDIARIES OF E'TOWN AND THAMES : VERIFIED PETITION
WATER HOLDINGS INCORPORATED FOR :
APPROVAL OF A CHANGE IN CONTROL OF :
NEW JERSEY PUBLIC UTILITIES CONTROLLED :
AND OWNED BY E'TOWN CORPORATION :
: :
-----X

TO THE HONORABLE COMMISSIONERS OF
THE NEW JERSEY BOARD PUBLIC UTILITIES:

INTRODUCTION

Petitioner E'town Corporation ("E'town"), on behalf of its New Jersey public utility subsidiaries identified below ("New Jersey Operating Utilities"), and Petitioner Thames Water Holdings Incorporated ("Thames Holdings"), by way of this Petition filed pursuant to N.J.S.A. 48:2-51.1 and N.J.S.A. 48:3-10, respectfully request that the Board of Public Utilities ("Board") approve an Agreement and Plan of Merger ("Agreement"), dated November 21, 1999, between and among E'town, Thames Water Plc. ("Thames") and Edward Acquisition Corp. ("Acquisition Corp."), a New Jersey corporation indirectly wholly-owned by Thames created for the purposes of implementing the Agreement. The Agreement provides that Acquisition Corp shall be merged

with and into E'town, the parent of the New Jersey Operating Utilities. E'town shall be the surviving corporation and shall continue its corporate existence under New Jersey law. A copy of the Agreement is attached as Exhibit A.

THE PARTIES

1. Petitioner E'town, a corporation of the State of New Jersey, with its principal office located at 600 South Avenue, Westfield, New Jersey, is a publicly-owned holding company established pursuant to an Order of the Board dated August 5, 1985 in Docket No. WM8502238. E'town's subsidiaries are engaged in regulated utility and non-regulated activities. E'town is the direct or indirect owner of all issued and outstanding capital stock of the following New Jersey public utilities:

Elizabethtown Water Company ("Elizabethtown"), a water utility subject to the jurisdiction of the Board;

The Mount Holly Water Company ("Mount Holly"), a subsidiary of Elizabethtown operating as a water utility subject to the jurisdiction of the Board;

Homestead Water Utility Company, Inc. ("Homestead Water"), a subsidiary of Mount Holly operating as a water utility subject to the jurisdiction of the Board;¹

¹ On May 13, 1999 the Board entered on Order approving the merger of Homestead Water into Mount Holly, subject to the Board's approval of necessary municipal consents. A petition requesting approval of municipal consents is pending before the Board.

Applied Wastewater Management, Inc.
("AWWM"), a water and wastewater utility
subject to the jurisdiction of the Board;

Homestead Treatment Utility, Inc.
("Homestead Treatment"), a subsidiary of
AWWM operating as a wastewater utility
subject to the jurisdiction of the Board.²

2. Petitioner Thames Holdings is a corporation organized under the laws of the State of Delaware with its principal offices located at Two Stamford Plaza, Stamford, Connecticut. Thames Holdings is a wholly owned subsidiary of Thames, a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom. Thames is the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to over 21 million customers throughout the United Kingdom, Australia, China, Indonesia, Malaysia, Puerto Rico and Turkey. A description of Thames is attached as Exhibit B. Thames is the indirect owner of 100% of the issued and outstanding capital stock of Acquisition Corp.

² On May 13, 1999 the Board issued an Order approving the merger of Homestead Treatment into AWWM, subject to the Board's approval of necessary municipal consents. A petition requesting approval of municipal consents is pending before the Board.

THE AGREEMENT

3. Under the terms of the Agreement, E'town will become a wholly-owned subsidiary of Thames Holdings which, in turn, is a wholly-owned subsidiary of Thames.

4. The New Jersey Operating Utilities will continue to be directly and indirectly wholly-owned subsidiaries of E'town and will continue to exist as New Jersey public utility corporations subject to the jurisdiction and regulation of the Board.

5. The Agreement provides that all of the issued and outstanding Common Stock of E'town ("E'town Common Stock") shall be acquired by Thames in exchange for cash consideration of \$68.00 per share. The current authorized capital stock of E'town consists of 15,000,000 shares of Company Common Stock. As of November 17, 1999, 8,685,984 shares of E'town Common Stock were issued and outstanding.

6. Under the Agreement, Thames will cause Thames Holdings to have funds sufficient to consummate the transaction.

7. None of the outstanding debt, owed and recorded as liabilities on the books of the New Jersey Operating Utilities will be affected by the Agreement. All of the outstanding debt will continue to be liabilities and obligations of the New Jersey Operating Utilities.

8. The Agreement is conditioned upon, among other things, obtaining (i) all necessary regulatory approvals, including the approval of the Board and (ii) the approval of E'town's shareholders.

JURISDICTION AND REGULATORY APPROVALS

9. This petition is being filed pursuant to N.J.S.A. 48:2-51.1 and N.J.S.A. 48:3-10. N.J.S.A. 48:2-51.1 provides that any person acquiring or seeking to acquire "control of a public utility directly or indirectly through the medium of an affiliated or parent corporation or organization, or through the purchase of shares . . . or through any other manner" shall obtain written approval of the Board. N.J.S.A. 48:3-10 provides that no public utility, without approval of the Board, shall transfer its stock to another corporation, the result of which is to vest a majority interest of the outstanding capital stock in another corporation. Although there will be no actual or book transfer of any stock of any operating utility within the contemplation of N.J.S.A. 48:3-10, this petition is being filed pursuant to N.J.S.A. 48:3-10 in the event that the Board determines that such statute is also applicable to this transaction.

A. Approval Pursuant to N.J.S.A. 48:2-51.1

10. In considering a request for approval pursuant to N.J.S.A. 48:2-51.1, the Board is required to "evaluate the

impact of the acquisition on competition, on the rates of ratepayers affected by the acquisition of control, on the employees of the affected public utility or utilities, and on the provision of safe and adequate utility service at just and reasonable rates."

Competition

11. The transaction contemplated by the Agreement will not adversely impact competition because the New Jersey Operating Utilities will continue to operate in their current franchise territories under the same market conditions which currently exist. Furthermore, because the transaction will result in E'town having greater access to capital, E'town and its subsidiaries should be able to compete more effectively for the provision of water services to municipalities interested in out-sourcing services to private water companies and for the potential acquisitions of smaller water companies.

Customer Rates

12. The transaction will not have any immediate, direct or measurable impact on the existing rates for the New Jersey Operating Utilities. The New Jersey Operating Utilities will continue to operate under their existing tariffs and rate structures. There will be no immediate changes in the balance sheets or financial positions of the New Jersey Operating Utilities as a result of this transaction.

Employees

13. The transaction contemplated by the Agreement will not have an immediate, direct or measurable impact on the employees of the New Jersey Operating Utilities. No significant changes in employee staffing, compensation or benefits are contemplated as a result of the merger. In fact, the Agreement provides that Thames, E'town and their respective subsidiaries for a period of not less than twelve (12) months following the closing date of the transaction shall not terminate any employee other than for cause (Agreement Section 7.09(a)). Moreover, the Agreement provides that existing employee benefits will continue for a period of at least one year (Agreement Section 7.09(a)). All collective bargaining agreements of E'town and its subsidiaries that apply to any other current or former employees will not be affected by this transaction. (Agreement, Sections 4.10(h), 7.08 and 7.09(b) and (c)).

14. Given that Thames Holdings' primary reason for acquiring E'town is to expand its presence in the United States, the transaction should, over time, enhance, rather than diminish, opportunities for E'town's employees.

Provision Of Safe And Adequate Service

15. The New Jersey Operating Utilities will continue to provide safe, adequate and reliable service in fulfillment of their obligations under New Jersey law. The day-to-day

operations of the New Jersey Operating Utilities will continue in the same manner as today. As further assurance of the continuation of safe, adequate and proper service, it is anticipated that, absent normal retirements, the existing management of E'town and the New Jersey Operating Utilities will remain in their current positions for at least one year after the closing date of the transaction. Moreover, E'town will continue to maintain its operational headquarters within the service territory of the New Jersey Operating Utilities. Furthermore, the Agreement provides that Thames will take all necessary action to cause Andrew M. Chapman to be elected as a director of Thames Holdings, the parent of E'town.

B. Approval Pursuant to N.J.S.A. 48:3-10

16. In connection with Petitions filed pursuant to N.J.S.A. 48:3-10, N.J.A.C. 14:1-5.10 requires the provision of information regarding the reasons for the stock transfer, an explanation of anticipated changes in the Board of Directors, officers, managers, and company policies and a description of the qualifications of management.

Reasons For Transaction

17. Certainly, the association of Thames and E'town, through the proposed merger, will have no adverse impact on the public interest. Indeed, the association of these two companies

will benefit the customers, employees and shareholders of E'town and its subsidiaries and will promote the public interest by combining resources and expertise which will, among other things, create opportunities for sharing best operating practices, increase access to capital markets, increase opportunities for growth in the water and wastewater market (particularly the acquisition, operation and management of municipal utilities desirous of out-sourcing the treatment and distribution of water to private companies and the potential acquisitions of smaller water companies), enhance research and development, and promote compliance with federal and state regulatory requirements regarding wastewater, water supply and water quality. A more detailed discussion of the reasons for the transaction is set forth in Exhibit C, attached hereto.

Management, Officers And Board Of Directors

18. The Agreement does not contemplate any changes in the existing management and officers of E'town or the New Jersey Operating Utilities for at least one year after the closing date of the transaction. Thus, the New Jersey Operating Utilities will continue to have proven management experience and capability to provide safe, adequate and proper service to the public.

19. Current E'town Directors Andrew M. Chapman and Edward A. Clerico shall continue to be Directors of the

surviving corporation (E'town) and they will be joined by at least three directors to be appointed by Thames.

No Change In Utility Policies

20. The transaction contemplated by the Agreement will not result in any immediate changes in the New Jersey Operating Utilities' policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.

NOTICE AND COMMUNICATIONS

21. A copy of this Petition has been served upon Blossom Peretz, Director, Division of Ratepayer Advocate. Although the municipalities served by the New Jersey Operating Utilities have been advised of the proposed transaction, a proposed form of notice is attached hereto as Exhibit D.

22. All correspondence and communications to this proceeding are to be addressed to the following:

On behalf of E'town and Thames Holdings:

Anne S. Babineau, Esq.
Hesser G. McBride, Jr., Esq.
Wilentz, Goldman & Spitzer, P.A.
90 Woodbridge Center Drive
P.O. Box 10
Woodbridge, New Jersey 07095

On behalf of E'town:

Walter Braswell, Esq.
Vice President, General Counsel & Secretary
Elizabethtown Water Company
600 South Avenue
Westfield, New Jersey 07090

and

On behalf of Thames Holdings:

Ronald E. Walsh, Vice President
and General Counsel
Thames Water Holdings Incorporated
Two Stamford Plaza
281 Tresser Boulevard
Stamford, Connecticut 06901

REQUEST FOR EXPEDITED DISPOSITION

23. The timetable for closing on the transaction under the Agreement anticipates that the shareholder and other required regulatory approvals will be issued by no later than May 1, 2000. Therefore, the Petitioners respectfully request that the Board process this matter and issue the requested relief on an expedited basis. Expeditious disposition is required because protracted regulatory proceedings could delay, or even jeopardize, the consummation of the transaction and the benefits, as discussed above, to be derived therefrom.

WHEREFORE, the Petitioners respectfully request:

A. That the Board issue an Order (i) approving the Agreement and Plan of Merger between and among E'town, Thames and Acquisition Corp. dated as of November 21, 1999; and (ii)

authorizing Thames Holdings, pursuant to the Agreement, to acquire control of E'town, Elizabethtown, Mount Holly, AWWM, Homestead Water and Homestead Treatment, pursuant to N.J.S.A. 48:2-51.1; and (iii) determining that no further approval of the Board is required with regard to the Agreement; and

B. Such other and further relief as the Board may deem appropriate or necessary to effectuate the terms of the Agreement.

Respectfully submitted,

WILENTZ, GOLDMAN & SPITZER
A Professional Corporation
90 Woodbridge Center Drive
P.O. Box 10
Woodbridge, New Jersey 07095
Attorneys for Petitioners E'town
Corporation and Thames Water
Holdings Incorporated

Dated: December 17, 1999

By: _____
ANNE S. BABINEAU

WALTER BRASWELL
Vice President, General Counsel &
Secretary
Elizabethtown Water Company
600 South Avenue
Westfield, New Jersey 07090
Attorney for E'town Corporation

Dated: December 17, 1999

By: _____
WALTER BRASWELL

VERIFICATION

DAVID E. CHARDAVOYNE, being duly sworn according to law, upon his oath, deposes and says:

1. I am the President of Thames Water Holdings Incorporated and am authorized to make this Verification on behalf of Thames Water Holdings Incorporated.

2. I have read the contents of the foregoing Petition and hereby verify that the statements therein contained are true and accurate to the best of my knowledge and belief.

DAVID E. CHARDAVOYNE

Sworn to and subscribed
before me this ____ day
of December, 1999.

Notary Public

VERIFICATION

ANDREW M. CHAPMAN, being duly sworn according to law,
upon his oath, deposes and says:

1. I am the President of E'town Corporation and am
authorized to make this Verification on behalf of E'town
Corporation.

2. I have read the contents of the foregoing Petition
and hereby verify that the statements therein contained are true
and accurate to the best of my knowledge and belief.

ANDREW M. CHAPMAN

Sworn to and subscribed
before me this ____ day
of December, 1999.

Notary Public



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

WATER AND WASTEWATER

IN THE MATTER OF THE JOINT)	DECISION AND ORDER
PETITION OF E'TOWN CORPORATION)	
AND CERTAIN SUBSIDIARIES OF)	
E'TOWN AND THAMES WATER)	
HOLDINGS INCORPORATED FOR)	
APPROVAL OF A CHANGE IN CONTROL)	
OF NEW JERSEY PUBLIC UTILITIES)	
CONTROLLED AND OWNED BY E'TOWN)	
CORPORATION)	DOCKET NO. WM99120923

(SERVICE LIST ATTACHED)

BY THE BOARD:

On December 20, 1999, Petitioner E'town Corporation ("E'town"), on behalf of its New Jersey Operating Utilities ("NJOUs"), as identified below, and Petitioner Thames Water Holdings Incorporated ("Thames Holdings"), filed a joint petition with the New Jersey Board of Public Utilities ("Board"), pursuant to N.J.S.A. 48:2-51.1 and N.J.S.A. 48:3-10, requesting approval of an Agreement and Plan of Merger ("Agreement"), dated November 21, 1999, between and among E'town, Thames Water Plc. ("Thames"), and Edward Acquisition Corp. ("Acquisition Corp.").

E'town, a holding company, is a corporation of the State of New Jersey with its principal offices located in Westfield, New Jersey. E'town provides water and wastewater services and owns all of the issued and outstanding stock, either directly or indirectly, of the following Board-regulated utilities: Elizabethtown Water Company ("Elizabethtown Water"), Mount Holly Water Company ("Mount Holly"), and Applied Wastewater Management, Inc. ("AWWM").¹ Elizabethtown Water, Mount Holly and AWWM are collectively referred to as the "New Jersey Operating Utilities" or

¹In addition to the operating utilities regulated by the Board, E'town, through its wholly owned, non-regulated contract operation subsidiaries, Edison Water Company and Liberty Water Company, respectively, provide operating and management services to approximately 12,000 water customers in the Township of Edison and approximately 18,000 water customers in the City of Elizabeth.

"NJOU's".² Elizabethtown Water, Mount Holly and AWWM provide water service to approximately 203,000 water customers in portions of ten New Jersey counties and AWWM provides wastewater service to approximately 1,250 customers in portions of four New Jersey counties.

Thames Holdings is a corporation organized under the laws of the State of Delaware with its principal offices located in Stamford, Connecticut. Thames Holdings is a wholly owned subsidiary of Thames, a public limited corporation organized under the laws of England and Wales with its principal office located in London, United Kingdom. Thames is the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to over 21 million customers throughout the United Kingdom, Australia, China, Indonesia, Malaysia, Puerto Rico and Turkey.

On September 25, 2000, Thames and RWE AG announced that they reached agreement on terms under which the water interests of RWE AG would be combined with Thames. The combined water activities will be known as Thames Water, a division of RWE AG. RWE AG is in the process of acquiring Thames. RWE AG is a German corporation engaged in the core activities of electric, gas, water/wastewater and waste removal in several countries in Europe. It also has varying degrees of operations in the United States, Canada and on the continents of Africa and Asia. On September 26, 2000, representatives of E'town and Thames met with the parties to provide information on the recent developments regarding the acquisition of Thames by RWE AG.

Acquisition Corp., a duly organized and existing New Jersey corporation, is an indirect, wholly owned, special-purpose subsidiary of Thames and was formed for the sole purpose of effectuating the merger with E'town. Acquisition Corp. shall be merged with and into E'town with E'town as the surviving corporation. As a result, E'town will become a wholly owned subsidiary of Thames Holdings, which, in turn, is a wholly owned subsidiary of Thames. In the event that the acquisition of Thames by RWE AG is completed, Thames will be a wholly owned subsidiary of RWE AG. The NJOU's will continue to be direct and indirect wholly owned subsidiaries of E'town and will continue to exist as public utilities subject to the jurisdiction of the Board.

After proper notice, two public hearings were conducted with respect to the joint petition. On May 31, 2000, Commissioner Carmen J. Armenti presided over a hearing held in Westampton. Three members of the public appeared to comment on the record. A second hearing was held in Westfield on June 1, 2000, before Acting Secretary Edward D. Beslow, Esq. Several members of the public appeared and made comments on the record.

During the course of this proceeding, one motion to intervene was filed. By Order dated June 23, 2000, the Board granted the Utility Workers Union of America, AFL-CIO ("UWUA") and the

² At the time of the filing of the Petition in December, 1999, the NJOU's also included Homestead Water Utility Company, Inc. and Homestead Treatment Utility, Inc. Homestead Water was a separate subsidiary of Mount Holly, operating as a water utility subject to the jurisdiction of the Board and Homestead Treatment was a separate subsidiary of AWWM operating as a wastewater utility subject to the jurisdiction of the Board. Therefore, the Petition was filed on behalf of Homestead Water and Homestead Treatment as well as the other listed companies. On May 13, 1999, the Board, in Docket Nos. WM99020091 and WM99020090, approved the merger of Homestead Water into Mount Holly and Homestead Treatment into AWWM, respectively. However, both of those Orders were not final because they were subject to the Board's approval of necessary municipal consents. On January 6, 2000, the Board entered Orders, in Docket Nos. WE99050368 and WE99050367, approving the transfer of the franchise consents. Therefore, Homestead Water and Homestead Treatment were merged into Mount Holly and AWWM, respectively.

Utility Workers Union of America Local No. 423 ("Local 423") (collectively, the "Unions") intervener status. The June 23, 2000 Order noted that "N.J.S.A. 48:2-51.1 specifically requires that, in acting upon a petition for acquisition of a public utility, the Board evaluate the impact of such acquisition 'on the employees of the affected public utility' [and that] (t)he Unions, as representatives of E'town's employees, have an interest in the Board's evaluation of the impact of the proposed acquisition of E'town on those employees."

After numerous settlement conferences and discussions, Petitioners, the Staff of the Board, the Division of the Ratepayer Advocate ("Ratepayer Advocate") and the Unions entered into the attached Stipulation of Settlement, which fully disposes of all issues in this matter.

PROPOSED AGREEMENT AND PLAN OF MERGER

E'town, Thames and Acquisition Corp. have entered into an Agreement, dated November 21, 1999, which provides that E'town will be merged into Acquisition Corp., with E'town continuing as the surviving company and as an indirect wholly owned subsidiary of Thames. Thames wholly owns Thames Holdings. The transaction will thus result in the control of E'town by Thames.

Under the terms of the Agreement, all of the issued and outstanding common stock of E'town ("E'town Common Stock") shall be acquired by Thames in exchange for cash consideration of \$68.00 per share. The current authorized capital stock of E'town consists of 15,000,000 shares of Company Common Stock. As of November 17, 1999, 8,685,984 shares of E'town Common Stock were issued and outstanding. Under the Agreement, Thames will cause Thames Holdings to have funds sufficient to consummate the transaction. None of the outstanding debt, owed and recorded as liabilities on the books of the NJOUs will be affected by the Agreement. All of the outstanding debt will continue to be liabilities and obligations of the NJOUs.

Petitioners filed their petition seeking approval of the merger under N.J.S.A. 48:2-51.1, which provides that:

No person shall acquire or seek to acquire control of a public utility directly or indirectly through the medium of an affiliated or parent corporation or organization, or through the purchase of shares, the election of a board of directors, the acquisition of proxies to vote for the election of directors, or through any other manner, without requesting and receiving the written approval of the Board of Public Utilities. Any agreement reached, or any other action taken, in violation of this act shall be void.

From a regulatory perspective, the transaction is appropriately viewed as an acquisition of control under N.J.S.A. 48:2-51.1. Additionally, the petition was filed under N.J.S.A. 48:3-10, which the Board has fully considered in performing its analysis in this proceeding.

Under N.J.S.A. 48:2-51.1, the Board is required to:

...evaluate the impact of the acquisition on competition, on the rates of ratepayers affected by the acquisition of control, on the employees of the affected public utility or utilities, and on the provision of safe and adequate utility service at just and reasonable rates.

The Board must determine whether this transaction can be accomplished without any adverse impact on the four areas specified in the statute, and that it is not contrary to the public interest.

The Board's primary tool to assure that the NJOUs are properly protected lies in the Board's power to set rates and oversee the transactions of the NJOUs. The Board's traditional regulatory powers will provide all the enforcement the Board will need to assure that the NJOUs and their customers are adequately and properly protected and that the proposed transaction does not affect their operations or customers.

STIPULATION

The parties agree that the N.J.S.A. 48:2-51.1 criteria are satisfied and that the proposed change in control will not adversely impact competition, rates, employees or the provision of safe and adequate utility service at just and reasonable rates. By letter dated September 25, 2000 (attached to the Stipulation), RWE AG confirmed that RWE AG agrees that the offer to acquire Thames is being made on the basis that Thames will continue to fulfill Thames' obligations as contemplated by the Stipulation and any Board Order and that RWE AG will support Thames in so doing. As more fully set forth in the attached Stipulation, the parties agree that:

1. **IMPACT ON COMPETITION:** The change in control will not adversely impact competition because the NJOUs will continue to operate in their current franchise territories under the same market conditions, which currently exist, subject to the continuing jurisdiction of the Board.
2. **IMPACT ON CUSTOMER RATES:** The change in control will not have any immediate, direct or measurable impact on the existing rates for the NJOUs. The NJOUs will continue to operate under their existing tariffs and rate structures. Moreover, Petitioners and the NJOUs agree that each NJOU will not file an application for an increase in rates prior to April 1, 2001, and that each application will not request or notice for more than 18% increase in its rates. Each NJOU further agrees that it will not implement any increase in rates prior to March 1, 2002, including a commitment that it will not implement any proposed rate increase prior to March 1, 2002, in the event of the expiration of the suspension periods described in N.J.S.A. 48:2-21 (d) at a time prior to March 1, 2002. Further, the NJOUs will continue to operate subject to the jurisdiction of the Board.
3. **IMPACT ON EMPLOYEES:** The change in control will not have an immediate, direct or measurable impact on the employees of the NJOUs. Petitioners and the NJOUs shall not terminate any employee, other than for cause, until the later of one year from the date of closing or December 31, 2001.
4. **IMPACT ON SERVICE:** The change in control will not affect the ability of the NJOUs to provide safe, adequate and reliable service in fulfillment of their obligations under New Jersey law. Nor will it in any way affect the Board's continuing jurisdiction over service.

The Board, having considered the record in this matter, **HEREBY FINDS** that:

1. The proposed change in control to be made is in accordance with law and, with the implementation of the provisions set out in the Stipulation as conditions to this Decision and Order, does not appear to be contrary to the public interest.
2. The proposed conditions set forth in the Stipulation entered into by the parties appear reasonable and appropriate and, in conjunction with existing statutes, provide the Board with sufficient means to properly regulate the operations of the NJOUs.

3. Based upon the record in this proceeding and subject to the conditions set forth in this Order, the statutory criteria set forth in N.J.S.A. 48:2-51.1 are satisfied and the change in control can be accomplished without any adverse impact on competition, rates, employees or the provision of safe and adequate utility services at just and reasonable rates; and that the change in control will not affect the ability of the NJOUs to continue to provide safe, adequate and proper service to their customers.
4. The proposed transaction is expected to benefit the customers of the NJOUs by:
 - (i) combining resources and expertise, such as through sharing best operating practices;
 - (ii) enhancing research and development; and
 - (iii) promoting compliance with federal and state regulatory requirements regarding wastewater, water supply and water quality.

Accordingly, the Board **HEREBY ADOPTS** the Stipulation attached hereto as its own, incorporating by reference the terms and conditions as if fully set forth at length herein, subject to the following conditions:

- (a) Petitioners and the NJOUs shall not allocate, push down, or assign any purchase price, goodwill or any premium reflected in the purchase price of the E'town stock to any of the NJOUs, either directly or indirectly for ratemaking purposes. Such items shall not be passed on to or funded by customers of the NJOUs after the proposed transaction. No acquisition adjustment amount, as defined in the Board-approved Uniform System of Accounts, shall be recovered from the customers of the NJOUs.
- (b) No transaction costs (e.g., financial, legal, change in control agreements), as described in Exhibit A of the Stipulation, shall be passed on to, recovered from, or funded by customers of the NJOUs.
- (c) Subject to the execution, where appropriate, of acceptable confidentiality agreements, the Petitioners shall provide the Board and Ratepayer Advocate reasonable access to the books and records of E'town, or to the books and records of any of its regulated or non-regulated subsidiaries or affiliates, for the purposes of Board review of whether there has been a proper allocation of costs to the NJOUs. Petitioners shall provide the Board and the Ratepayer Advocate with convenient and timely access to the books and records of Thames, any entity that acquires Thames, and Petitioners where the Board directs, using appropriate procedures, that such access is necessary to ensure the proper exercise of the Board's regulatory jurisdiction. Nothing in the Stipulation shall be construed so as to limit the authority of the Board pursuant to N.J.S.A. 48:2-16 et seq.
- (d) The NJOUs shall use their best efforts to maintain all applicable water quality standards and to maintain or improve water service standards including, but not limited to, the following: water service related interruptions and employee response time thereto; and customer complaint and customer inquiry response time. The NJOUs shall maintain adequate resources to continue to be responsive to questions from customers and regulatory agencies.
- (e) The Board may conduct a management audit as part of its continuing monitoring of the NJOUs after the merger is completed and the Board reserves its right to do so.
- (f) Upon closing, Petitioners shall inform the Board of the date on which the change in control shall have been consummated and, within 180 days of closing shall provide the Board with an exhibit showing all transaction costs as well as the final details of the share prices and exchange ratios.

- (g) In the next rate proceedings, should the NJOUs seek to recover in rates costs allocated by Thames, its parent, or any of its subsidiaries or affiliates, the NJOUs shall provide the parties with a written explanation, supported by sufficient credible data, of the method of allocating such costs.
- (h) In accordance with and absent a change in N.J.S.A. 48:3-7.1 or applicable Board regulations, any management, advisory service, construction or engineering contract that in itself or in connection with another contract relating to the same work, project, transaction or service involves the expenditure of a sum exceeding twenty-five thousand dollars (\$25,000.00), made by any public utility with any person or corporation owning, holding or controlling separately, or in affiliation with another person or corporation, five per cent or more of the capital stock of such public utility or with any corporation five per cent of the capital stock of which is owned, held or controlled by a person or corporation owning, holding or controlling separately, or in affiliation with another person or corporation, five per cent of the capital stock of such public utility shall be submitted to the Board for approval. Any such contracts shall be reported annually to the Board by the NJOUs at the time of filing of their annual reports to the Board. The NJOUs shall continue to comply with N.J.S.A. 48:3-7.1.
- (i) Subject to the execution, where appropriate, of acceptable confidentiality agreements, copies of the tax returns of E'town or any other entity consolidated with the NJOUs, for the purpose of Federal Income Taxes, shall be made available to the Board to the extent the Board determines that the information contained therein is necessary to resolve any regulatory or financial issues impacting the NJOUs. This provision shall not impair the rights of any of the parties in any other proceeding.
- (j) The NJOUs shall continue to maintain their books and records in accordance with the Board approved Uniform System of Accounts or as otherwise prescribed by the Board. In addition, the financial statements of E'town and the NJOUs shall be in U.S. dollars.
- (k) Neither the credit nor the assets of the NJOUs shall be pledged to support any financing related to Petitioners, their affiliates or parent, without the prior approval of the Board, provided, however, that this restriction shall not impair the ability of the NJOUs to borrow short term without the approval of the Board.
- (l) The corporate headquarters of the NJOUs shall remain in New Jersey.³
- (m) Neither of the Petitioners nor the NJOUs shall terminate any individual who continues to be an employee of E'town or the NJOUs until the later of one year from the date of the closing of the merger between Thames and E'town or December 31, 2001, other than for cause. For a period of one year following the date of this Order, on a quarterly basis, the NJOUs shall provide the Board and the Ratepayer Advocate with reports on employee levels at the NJOUs⁴ and income statements and balance sheets for Elizabethtown Water and Mount Holly. There shall be no change in the pensions and other employee benefits related to the NJOUs as a result of the merger for a period of twelve (12) months from closing. The NJOUs shall honor the collective bargaining agreements of

³ The present corporate headquarters of: (a) Elizabethtown Water is 600 South Avenue, Westfield, New Jersey 07090; (b) Mount Holly is 84 Mill Street, Mount Holly, New Jersey 08060; and (c) AWWM is 2 Clerico Lane, Belle Mead, New Jersey 08502.

⁴ The quarterly employee level reports shall identify the number of management, non-management and union employees for each of the following categories: operations – treatment and production, operations – transmission and distribution, and administration.

the NJOUs through the termination dates of those agreements, consistent with the term of section 7.08 of the Merger Agreement. This paragraph governs the relations between the parties and does not confer any additional employee rights. Any early retirement, voluntary employee reduction plan or outsourcing program to be implemented within eighteen months (18) of the date of this Order shall be reported to the Board prior to implementation of the program. The Board recognizes that Thames has committed to continue to use local senior and middle management at the NJOUs for a minimum of three years following the date of this Order.

- (n) Within 60 days of closing, the NJOUs shall develop and submit for Board Staff and Ratepayer Advocate review a Customer Outreach and Education Program designed to inform customers of the transaction and assure them of the continued oversight of the Board, the New Jersey Department of Environmental Protection and the continued compliance with all New Jersey laws and regulations, and to inform them of the continuity of customer service and customer relations procedures of the NJOUs. For a period of twelve months following the closing of the transaction, the NJOUs shall file quarterly reports with the Board listing all customer complaints received during the prior quarter. The NJOUs shall continue to comply with N.J.A.C. 14:3-6.6 and shall issue the reports regarding customer complaints referenced in this paragraph using the Board Utility Inquiry Classification System ("BUICS"). For the period from the date of this Order until the effective date of rates resulting from its next rate case, each NJOU shall submit to the Board, on the form attached to the Stipulation as Exhibit B, quarterly reports of the quality of service measures listed on Exhibit B. The NJOUs shall report to the Board regarding the results with respect to these measurements for the purpose of developing a baseline against which to track future performance. The NJOUs shall report to the Board their performance results for the three years prior to the date of this Order with respect to these criteria where available.
- (o) The NJOUs shall use their best efforts to maintain current bond ratings.⁵ For a three-year period following closing of the merger, any change in the debt ratings of Elizabethtown Water, as reported by Moody's Investors Service and Standard & Poor's Corporation, from the current levels of the ratings, and any post-merger changes in dividend policy, shall be reported to the Board as they occur. The Board may exercise its authority to review in detail the capital structure, including the costs of debt and equity, of the NJOUs.
- (p) The NJOUs shall maintain a level of capital investment and best operating practices sufficient to ensure long-term safe, adequate and proper service in compliance with applicable regulations and statutes and in accordance with prudent utility practice.
- (q) For a minimum of three years following the date of this Order, a majority of the individuals appointed to serve on the E'town Board of Directors shall be residents of New Jersey. To ensure appropriate local input, Petitioners shall make familiarity with New Jersey interests and concerns an important consideration in appointing directors to serve on the Boards of E'town and the NJOUs.
- (r) Upon closing of the merger, E'town shall file with the Board a certified copy of its Certificate of Merger as recorded with the Secretary of State of the State of New Jersey.
- (s) The Board has an ongoing regulatory concern with cross-subsidization and non-arm's-length transactions. E'town shall file a report with the Board fully describing the

⁵ Currently, Elizabethtown Water's bonds are rated A2 by Moody's and A + by Standard & Poor's.

corporate structure and corporate relationships of E'town in sufficient detail to allow the Board's Division of Audits to monitor compliance with all protections against improper affiliate relationships, such as cross-subsidization, allocations and non-arm's length transactions. Within six months of the date of the closing of the merger, E'town and the NJOUs shall file a report with the Board describing the corporate structure and corporate relationships of E'town, and the corporate structure and corporate relationships of the NJOUs, as of that date, and updated following any major change in corporate structure or relationships. Furthermore, E'town shall immediately report to the Board any changes in the E'town Board of Directors with all particulars, including, but not limited to, providing the resumes of the directors.

- (t) The NJOUs shall not disclose confidential customer information, including names, addresses, and phone numbers to any affiliate of E'town or the NJOUs, including Thames or its parent, without prior notice to the Board and without prior consent of the customer.
- (u) No NJOU shall file an application for an increase in rates prior to April 1, 2001, and no application shall request or notice for more than an 18% increase in rates. No NJOU shall implement any increase in rates prior to March 1, 2002, or implement any proposed rate increase prior to March 1, 2002 in the event of the expiration of the suspension periods described in N.J.S.A. 48:2-21 (d) at a time prior to March 1, 2002. The Board recognizes that unforeseen mandatory regulatory, legislative, accounting and tax changes beyond the control of the NJOUs may take place during the time period described in this paragraph and that the NJOUs should neither materially benefit nor suffer financially in the event of such circumstances. If such unforeseen circumstances occur and result in material financial benefit or harm, rates may be adjusted pursuant to Board approval to reflect changed circumstances.
- (v) After appropriate notice and hearing, the NJOUs shall issue a credit on the bill of each NJOU customer, at the time of the effective date of rates at the conclusion of the next rate case, or as may be ordered by the Board, in an aggregate amount equal to \$400,000 plus interest, at the interest rate applicable to customer deposits described in N.J.A.C. 14:3-7.5, with interest being credited from the time of the closing of the merger to the effective date of rates at the conclusion of the next rate case, or as may be ordered by the Board. This credit shall reflect a sharing of savings that is expected to be achieved as a result of the merger prior to the effective date of any increase in rates as a result of the next rate case, or as may be determined by the Board. Board approval of the Stipulation binds the parties to the savings level agreed to herein, but does not bind the Board or other entities not party to the Stipulation.
- (w) The Board may exercise its authority to enforce the provisions of the Stipulation and this Order adopting the Stipulation.
- (x) The authority granted herein shall become null and void if the merger is not completed within one hundred and eighty (180) days of the date of this Order.

- (y) The Stipulation shall bind and inure to the benefit of the parties and their respective successors and assigns.
- (z) The Board must be in a position to fully assess any new corporate relationships, the intentions of RWE AG or any entity that may acquire Thames, and the potential impact of such acquisition on the operations of E'town and the NJOUs. Therefore:
 - 1. Thames shall condition any transaction with RWE AG, or any other entity that seeks to acquire Thames, on the continuing obligation of Thames to fulfill Thames' commitments under the Stipulation, this Order and any subsequent Board Orders issued relating to this matter (hereinafter referred to as "Obligations");
 - 2. Board approval of the Stipulation is expressly conditioned on Thames' agreement, and RWE AG's support (as set forth in a letter of September 25, 2000) of that agreement by Thames, to fulfill Thames' Obligations;
 - 3. In the event that Thames seeks to transfer, assign, relinquish or modify any of its Obligations, Thames shall petition the Board for approval of such transfer, assignment, relinquishment or modification;
 - 4. The Board retains all of its rights to consider, evaluate and approve such transfer, assignment, relinquishment or modification of Thames' Obligations; and
 - 5. The Board reserves its right to revisit its approval and assert regulatory jurisdiction in the event that Thames is acquired by RWE AG, or another entity, and there are conditions in such acquisition that may adversely affect the ability of E'town and the NJOUs to meet their New Jersey obligations and/or Thames' ability to meet its Obligations or adversely affect the integrity or responsibility of the NJOUs, E'town, Thames, RWE AG or any entity acquiring Thames.

- (aa) Prior to the sale, lease, mortgage or other disposition or encumbrance of any of its property, the NJOUs shall obtain Board approval as required by N.J.S.A. 48:3-7 and N.J.A.C. 14:1-5.6.
- (bb) The Stipulation shall not affect or in any way limit the exercise of the authority of the Board in any future petition or in any proceeding with respect to the rates, franchises, services, financing, capitalization, depreciation, accounting, maintenance, operations or any other matter affecting the NJOUs.

DATED:

BOARD OF PUBLIC UTILITIES
BY:

HERBERT H. TATE
PRESIDENT

CARMEN J. ARMENTI
COMMISSIONER

FREDERICK F. BUTLER
COMMISSIONER

ATTEST:

FRANCES L. SMITH
BOARD SECRETARY

I/M/O THE JOINT PETITION OF E'TOWN CORPORATION AND CERTAIN SUBSIDIARIES
OF E'TOWN AND THAMES WATER HOLDINGS INCORPORATED FOR
APPROVAL OF A CHANGE IN CONTROL OR NEW JERSEY
PUBLIC UTILITIES CONTROLLED AND OWNED
BY E'TOWN CORPORATION
BPU DOCKET NO. WM99120923

SERVICE LIST

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NJ Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Robert Henkes
[for the Ratepayer Advocate]
7 Sunset Road
Old Greenwich, CT 06870

Frances L. Smith, Esq.
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Two Gateway Center
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I/M/O THE JOINT PETITION OF E'TOWN CORPORATION AND CERTAIN SUBSIDIARIES
OF E'TOWN AND THAMES WATER HOLDINGS INCORPORATED FOR
APPROVAL OF A CHANGE IN CONTROL OR NEW JERSEY
PUBLIC UTILITIES CONTROLLED AND OWNED
BY E'TOWN CORPORATION
BPU DOCKET NO. WM99120923

SERVICE LIST CONT

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NEW MEXICO

1 BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

2
3
4 IN THE MATTER OF THE ACQUISITION OF
5 AMERICAN WATER WORKS COMPANY, INC.
6 ("AMERICAN") BY THAMES WATER AQUA
7 HOLDINGS GmbH ("THAMES HOLDINGS")
8

9
10 Utility Case No. ____
11

12
13 NEW MEXICO-AMERICAN WATER COMPANY, INC.
14 ("NEW MEXICO-AMERICAN") AND THAMES HOLDINGS,
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16 APPLICANTS.
17

18
19 APPLICATION
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21 I. Introduction
22

23 Applicants, New Mexico American Water Company Inc. ("**New Mexico-**
24 **American**") and Thames Water Aqua Holdings GmbH ("**Thames Holdings**"), on
25 behalf of itself and its parent holding company RWE Aktiengesellschaft ("**RWE**"),
26 respectfully request that the New Mexico Public Regulation Commission
27 ("**Commission**") approve the acquisition of stock and the merger described herein.

28 The Agreement and Plan of Merger ("**Agreement**"), dated September 16,
29 2001, by and among RWE, Thames Holdings, Apollo Acquisition Company
30 ("**Acquisition Corp.**"), a Delaware corporation and wholly owned subsidiary of
31 Thames Holdings created for the purposes of implementing the Agreement, and
32 American, a corporation of the State of Delaware, is attached to this Application as
33 **Exhibit 1**. The Agreement provides that Acquisition Corp. shall be merged with and
34 into American, the parent of New Mexico-American. American shall be the surviving

1 corporation and shall continue its corporate existence under Delaware law. New
2 Mexico-American is the utility providing service within New Mexico subject to the
3 jurisdiction of the Commission, and will remain a subsidiary of American. The
4 transaction contemplated by the Agreement will not cause any changes in New
5 Mexico-American.

6 II. The Companies

7 1. Applicant, New Mexico-American, a corporation of the State of New
8 Mexico, with its principal office located at PO Box 430, Clovis, New Mexico, 88102-
9 0430, is a regulated public utility organized and operating under the laws of the State
10 of New Mexico (NMSA 1978 §§ 62-1-2 *et seq.*). It is engaged in the business of
11 distributing water to the public in Clovis, New Mexico, and nearby areas, subject to
12 the jurisdiction of the Commission under the New Mexico Public Utility Act (the
13 "Act").

14 2. Thames Water Plc ("**Thames**") is a public limited corporation organized
15 under the laws of England and Wales with its principal office located at 14 Cavendish
16 Place, London, United Kingdom. Thames operates all of the water business of
17 Thames Holdings and brings to Thames Holdings its extensive experience and
18 expertise as the largest water and wastewater company in the United Kingdom and
19 one of the largest water and wastewater companies in the world, providing water-
20 related services to over 43 million people world-wide. A description of Thames is
21 attached as **Exhibit 2**.

22 3. Applicant Thames Holdings, with its local offices to be located at 1101
23 Laurel Oak Road, Voorhees, New Jersey, is a company organized under the laws of

1 the Federal Republic of Germany and a wholly-owned subsidiary of RWE. A
2 description of RWE is attached as **Exhibit 3**.

3 **III. The Agreement**

4 4. Under the terms of the Agreement, American will become a wholly-
5 owned subsidiary of Thames Holdings which, in turn, is a wholly-owned subsidiary of
6 RWE.

7 5. New Mexico-American is not a party to the Agreement or to any
8 transaction contemplated by the Agreement. The transaction contemplated by the
9 Agreement will cause no change in New Mexico-American. New Mexico-American
10 will not issue, assume or guarantee any securities in connection with the Agreement
11 and the transaction contemplated thereby, nor will it sell, transfer or otherwise
12 dispose of its stock or its plant, property or other assets, or purchase or otherwise
13 acquire any securities, plant, property or other assets in connection therewith. New
14 Mexico-American will continue to be a subsidiary of American and will continue to
15 exist as a New Mexico public utility corporation subject to the jurisdiction and
16 regulation of the Commission. None of the outstanding debt, owed and recorded as
17 liabilities on the books of New Mexico-American, will be affected by the Agreement.
18 All of that outstanding debt will continue to be liabilities and obligations of New
19 Mexico-American.

20 6. The Agreement provides that each issued and outstanding share of
21 Common Stock, par value \$1.25 per share, of American ("American Common Stock")
22 not owned by Thames Holdings, Acquisition Corp. or American, other than shares

1 owned by any holder who invokes appraisal rights under Delaware law, shall be
2 converted into the right to receive cash consideration of \$46.00 per share.

3 7. As of September 30, 2001, the authorized capital stock of American
4 consisted of (i) 300,000,000 shares of American Common Stock, (ii) 1,770,000
5 shares of Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred
6 Stock"), (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per
7 share (the "Preference Stock"), and (iv) 3,000,000 shares of Cumulative Preferential
8 Stock, par value \$35.00 per share (the "Preferential Stock").

9 8. As of September 30, 2001, 99,971,542 shares of American Common
10 Stock (excluding shares held by American as treasury shares), 101,777 shares of the
11 Preferred Stock, 365,158 shares of the Preference Stock and no shares of the
12 Preferential Stock were issued and outstanding. The Agreement requires American
13 to redeem, prior to the closing of the transaction, each outstanding share of the
14 Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative
15 dividends thereon, and each outstanding share of the Preference Stock at a
16 redemption price of \$25.00 per share, plus full cumulative dividends thereon. The
17 Agreement also provides that, at the time of the closing of the transaction, each
18 share of American Common Stock owned by Thames Holdings, Acquisition Corp. or
19 American shall automatically be cancelled and cease to exist and no consideration
20 shall be delivered in exchange therefore.

21 9. In furtherance of the Agreement, RWE will cause Thames Holdings to
22 have funds sufficient to consummate the transaction.

1 10. The Agreement is conditioned upon, among other things, obtaining (i)
2 necessary state public utility regulatory approvals; and (ii) the approval of American's
3 shareholders.

4 **JURISDICTION AND REGULATORY APPROVALS**

5 11. This Application requests the following approvals and authorizations by
6 the Commission:

7 i) Authorization and approval, pursuant to NMSA 1978, §§ 62-6-12(A)(2)
8 and (3) and 62-6-13, of the transaction contemplated by the Agreement, including,
9 specifically, authorization and approval allowing Thames Holdings to acquire the
10 outstanding common stock of American, and allowing American to merge with Apollo
11 Acquisition Company, with American being the surviving corporation; and
12

13 ii) Authorization required by NMSA 1978, § 62-3-3(K), and
14 Commission Rule 450.7, approving a general diversification plan for New Mexico-
15 American, which New Mexico-American will compile and file as promptly as
16 practicable after this Application; and
17

18 iii) Such other authorizations, approvals, and consents as may be
19 required under the Act, and the Commissions Rules and Regulations for the
20 transaction contemplated by the Agreement.
21

22 **Approval Pursuant to NMSA § 62-6-13**

23 12. Pursuant to NMSA § 62-6-13, the Commission shall give its consent
24 and approval in writing to the transactions that are the subjects of this Application,
25 unless the Commission finds "that the proposed transaction[s] [are] unlawful or
26 inconsistent with the public interest." The proposed merger satisfies the statutory
27 standard and provides the benefits set forth in more detail hereafter.

28 13. New Mexico-American will continue to operate under its existing tariffs
29 and rates until changed by the Commission, and the transaction will cause no
30 adverse changes in the balance sheet or financial position of New Mexico-American.

1 14. The transaction will cause no changes in local staffing of New Mexico-
2 American or its day-to-day operations.

3 15. The transaction will result in no adverse impact on New Mexico-
4 American's customer service.

5 **Diagram of Steps of Transaction, and Benefits of Transaction**

6 16. Attached as **Exhibit 4**, is a "Diagram of Steps in Thames-RWE's
7 Acquisition of American Water Works Company." New Mexico-American will
8 continue to provide safe, adequate and reliable service in fulfillment of its obligations
9 under New Mexico law. Thames Holdings intends to retain New Mexico-American's
10 incumbent local management. Consequently, New Mexico-American will continue its
11 current high-quality service. As more particularly described below, the merged entity,
12 by virtue of its enhanced access to capital resources, will be better positioned to meet
13 future demands and to ensure that high quality service is maintained.

14 17. The transaction involving Thames Holdings and American will have no
15 adverse impact on the public interest. To the contrary, the association of these two
16 companies will benefit the customers and employees of New Mexico-American and
17 will promote the public interest by combining resources and expertise that will create
18 opportunities for sharing best operating practices.

19 18. The transaction will permit New Mexico-American to utilize Thames'
20 experience and expertise in safeguarding its water systems. Thames, with water
21 operations around the globe, has considerable experience in operating water
22 facilities and systems in regions where security concerns have been a fact of life for
23 some time. New Mexico-American, and ultimately its customers and employees, will

1 significantly benefit from the sharing of Thames' extensive experience in developing
2 and implementing comprehensive security measures to protect its customers
3 throughout the world.

4 19. The need to obtain additional ground water rights, to replace depleting
5 water wells and meet future growth to environmental standards has created
6 substantial demands for capital investment by New Mexico-American. Although
7 American has been successful in raising needed funds, the financial resources and
8 backing of RWE/Thames will enhance New Mexico-American's access to capital
9 markets. Enhanced access to capital markets at reasonable costs will be a benefit to
10 New Mexico-American and its customers. Enhanced access to capital will increase
11 New Mexico-American's ability to acquire additional water systems and water rights,
12 replace depleted wells, and implement new technology.

13 20. The association with Thames will further enhance American and its
14 subsidiaries' strong environmental track records. The transaction enhances New
15 Mexico-American's ability to respond to environmental challenges. Backed by
16 RWE's annual research and development budget, Thames is conducting several
17 programs in the area of renewable energy. Such programs include the use of solar
18 power, fuel cell technology, wind power and local heat and power generating systems
19 which offer the potential for ameliorating the continuing increase in the cost of
20 electricity used in the distribution and treatment of water. The goal of Thames and
21 American is to facilitate new and expanded environmentally friendly programs that
22 will benefit New Mexico-American and its customers.

1 21. The transaction will allow a sharing of research and development
2 between American and Thames. American is recognized as an industry leader in the
3 identification and detection of pathogenic organisms, cryptosporidium being a prime
4 example. Thames enjoys a comparable reputation in the area of water quality
5 monitoring and treatment. The combination of these research and development
6 capabilities offers potential benefits to the customers of New Mexico-American.

7 22. The transaction contemplated by the Agreement will have no adverse
8 impact on the employees of New Mexico-American. The transaction is predicated on
9 growth in earnings through achieving accelerated business development. Further, no
10 overlap exists between Thames' current U.S. operations and New Mexico-American's
11 operations. The transaction will not cause changes in local staffing or compensation,
12 and the value of employee benefits will not be reduced. In fact, the day-to-day
13 operations and management of New Mexico-American are not expected to change
14 as a result of this transaction.

15 23. The transaction will benefit New Mexico-American's employees by
16 providing increased opportunities for training and career development. Like
17 American, Thames firmly believes in equipping its employees with the skills and tools
18 needed to perform at the highest possible level.

19 24. The transaction will result in no adverse changes in New Mexico-
20 American's policies with respect to service to customers, employees, operations,
21 financing, accounting, capitalization, rates, depreciation, maintenance, or other
22 matters affecting the public interest or utility operations.

1 25. New Mexico-American has reported its existing agreements and
2 transactions with affiliated companies to the Commission. As of the present time, no
3 transactions have been identified in which New Mexico-American is acquiring goods
4 or services from or providing goods or services to companies that will become
5 affiliates as a result of the transaction contemplated by the Agreement. New Mexico-
6 American will, however, continue to disclose, report and account for any such
7 transactions in accordance with the provisions of the N.M. Public Utility Act and the
8 Commission's rules.

9 26. The transaction will not impair New Mexico-American's ability to raise
10 necessary capital on reasonable terms or to maintain a reasonable capital structure.

11 27. New Mexico-American will remain subject to all applicable laws,
12 regulations, rules, decisions and policies governing the regulation of New Mexico
13 public utilities.

14 28. The transaction will have no adverse impact on existing New Mexico-
15 American rates. New Mexico-American will continue to operate under its existing
16 tariffs and rate structures (until such time as such tariffs and rate structures are
17 revised in accordance with New Mexico law). This transaction will cause no changes
18 in the balance sheet or financial position of New Mexico-American.

19 29. American has a long history of service in the communities where it
20 operates. The philosophy of corporate responsibility to the communities served
21 resides at the core of the RWE, Thames, and American cultures, and this philosophy
22 will continue.

1 30. The proposed transactions are, in all respects, lawful, and consistent
2 with the public interest.

3 31. In support of this Application, Applicants are submitting the written
4 testimony of David R. Stephenson, Vice President, Regulatory Affairs, American
5 Water, and Michael Carmedy, Senior Vice President and Commercial Director of
6 Thames Water Americas.

7 32. A copy of this Application has been served upon Patricia A. Madrid,
8 Attorney General of the State of New Mexico, Post Office Box 1508, Santa Fe, New
9 Mexico, 87504-1508.

10 33. All correspondence and communications to this proceeding are to be
11 addressed to the following:

12 On behalf of Thames Holdings
13 Richard B. Cole, Esq.
14 Keleher & McLeod, P.A.
15 Albuquerque Plaza
16 201 Third NW, 12th Floor (87102)
17 P.O. Drawer AA (87103)
18 Albuquerque, New Mexico
19 (505) 346-4646

20
21 On behalf of New Mexico-American:
22 Thomas W. Olson, Esq.
23 Montgomery & Andrews, P.A.
24 P.O. Box 2307 (87504-2307)
25 325 Paseo de Peralta (87501)
26 Santa Fe, New Mexico
27 (505) 982-3873

28
29 **WHEREFORE**, the Applicants respectfully request:

30 A. That the Commission issue an Order (i) approving the purchase of
31 stock and the merger as set forth in this Application; and (ii) authorizing Thames

1 Holdings, RWE, and any other entity owned or controlled, directly or indirectly, by
2 Thames Holdings and managed by Thames to acquire control of American; and

3 B. That the Commission handle this matter on an expeditious basis and
4 immediately appoint a Hearing Examiner; and

5 C. That, thereafter, the Hearing Examiner, in a timely manner, schedule a
6 conference to establish the necessary dates for this proceeding, including dates for
7 public hearings; and,

8 D. Such other and further relief as the Commission may deem appropriate
9 or necessary.

10
11
12 Respectfully submitted,

13 KELEHER & McLEOD, P.A.
14 A Professional Association
15 Albuquerque Plaza
16 201 Third NW, 12th Floor (87102)
17 P. O. Drawer AA (87103)
18 Albuquerque, New Mexico
19 (505) 346-4646
20 Attorneys for Thames Water Aqua
21 Holdings GmbH
22
23
24
25

By: _____
RICHARD B. COLE, ESQ.

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MONTGOMERY & ANDREWS, P.A.
A Professional Association
P.O. Box 2307 (87504-2307)
325 Paseo de Peralta (87501)
Santa Fe, New Mexico
(505) 982-3873
Attorneys for New Mexico-American
Water Company Inc.

By: _____
THOMAS W. OLSON, ESQ.

Dated: _____, 2001

Exhibit 2

RWE- CORPORATE PROFILE

RWE, Germany's fifth largest industrial group, is a leading international multi-utility provider with core businesses in electricity, water, gas and waste management and utility-related services. Essen, Germany-based RWE Group has 12 major operating subsidiaries.

Within its core businesses, RWE today ranks:

Electricity -- No. 1 in Germany, No. 3 in Europe.

Water services -- No. 3 worldwide.

Gas -- No. 2 in Germany

Waste-management services -- No. 1 in Germany, No. 3 in Europe.

The Group ranks No. 1 in Germany and among the top 5 in Europe in utility-related services. RWE is also a leading trader of energy commodities, ranking it among the top three in Europe.

In the financial year 2000/2001 ended June 30, 2001, the Group's 170,000 employees worldwide generated sales of \$57 billion (63 billion Euros). Group EBITDA was approx. \$6 billion (6.6 billion Euros) and net income was approx. \$1.2 billion (1.3 billion Euros).

Selected Key Highlights of Groupwide Business Operations:

Operates the most dense and extensive private power grid in Europe, with a length of 355,000 kilometers (approximately 222,000 miles).

Generates more than 270 billion kilowatt hours of electricity annually for more than 8.9 million private and industrial customers and over 200 municipal power suppliers.

In physical and financial power trading, generates volume of more than 300 Terawatt hours; the only German trader to deal in all energy commodities (electricity, coal, gas and oil)

Sells approx. 220 billion kWh of natural gas annually.

Full-service waste management company, serving more than 23 million customers (residential consumers and municipalities) and over 220,000 industrial customers in Germany alone

Produces over 100 million tons of run-of-mine lignite per year, ranking the company as the largest lignite producer in the world.

Manages in excess of 12 million tons of waste per year in Germany alone.

Has launched the first powerline Internet access application in Germany, offering customers speeds up to 2 megabits per second

Leading promoter of renewable energy (fuel cell technology as well as wind-, solar- and biomass-generated energy)

Together with Siemens-Westinghouse, has launched the first pilot plant for fuel cell system technology

CORE
worldwide

- Responsible action in offering customers and communities utility services

BUSINESS
services

- Research and development of innovative technologies, products and

STRENGTHS

- Investing in growth areas nationally and internationally
 - Complete unbundling of power production chain in the electricity division
 - Balanced utility portfolio with long-term growth potential
- Know-how and experience in liberalized utility markets

Exhibit 3



THAMES WATER - CORPORATE PROFILE

Thames Water is a global leader in water and wastewater treatment operations, products and services. The company is the ***largest water/wastewater utility in the United Kingdom*** and the ***3rd largest water/wastewater services company in the world***. Thames Water and its international operations provide drinking water and wastewater treatment services to over 43 million people worldwide – including 12 million in and around the City of London. Thames Water operated as a public water authority prior to a successful transition to the private sector in 1989.

Thames Water is owned by the RWE Group, one of the world's largest multi-utility companies with annual revenues of \$48 billion and 172,000 employees.

SELECTED KEY • Global management and operation of over 540 water/wastewater facilities in 44 countries

HIGHLIGHTS OF • Extensive worldwide experience in various types of Public – Private Partnerships, operating

BUSINESS contracts, and concessions, including the ***world's largest wastewater treatment plant***

OPERATIONS (Egypt) and the ***world's largest privately financed water treatment plant (Turkey)***

• A specialist contracting business focused on operations and maintenance, rehabilitation and facilities management

• United States and United Kingdom based diversified products companies engaged in water/wastewater process equipment, membrane filtration, advanced separation systems, pipes, valves and fittings

- Award winning centralized 24 Hour Operations/Customer Service Call Center in the United Kingdom handling over 9,000 customer calls each day
- Completed one of the world's largest water main construction projects in the City of London
- A significant and growing presence in the United States and North America

CORE • Comprehensive management and operations of water and wastewater treatment facilities

BUSINESS • Financial and Commercial Business Development

STRENGTHS • Engineering conceptual development and process design

 • Research and Development (served as Research Advisor for NASA)

 • Innovation in Operations, Engineering and Technology

- Consultancy services, including training

CORPORATE London, England

HEADQUARTERS

EMPLOYEES 17,000 (includes RWE Aqua)

ANNUAL

REVENUES \$3 billion (includes RWE Aqua)

AWARDS *ISO 9000, 9001, 9002 & 14001 Accreditations*; 10 national awards in the United Kingdom across a broad range of customer care, environment, safety, architecture, and the industry, including: the *Utility Week Achievement Award*; *Corporation of London's Considerate Contractor Streetworks Scheme - Gold Award*; *Index of Corporate Environmental Engagement*; *UK Government Charter Mark for Customer Service Excellence*; *Britain's Best Employers Award*

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE ACQUISITION OF
AMERICAN WATER WORKS COMPANY, INC.
("AMERICAN") BY THAMES WATER AQUA
HOLDINGS GmbH ("THAMES HOLDINGS")**

Utility Case No. _____

**NEW MEXICO-AMERICAN WATER COMPANY, INC.
("NEW MEXICO-AMERICAN") AND THAMES HOLDINGS,
APPLICANTS.**

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing APPLICATION to be mailed and/or hand-delivered on December 20, 2001, to the following:

The Honorable Patricia Madrid
Attorney General
State of New Mexico
Post Office Drawer 1508
Santa Fe, NM 87504-1508

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Montgomery & Andrews, P.A.
325 Paseo de Peralta
Santa Fe, New Mexico 87501

David F. Richards, Esq.
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Clovis, NM 88102-1080

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American Water Works Company
880 Kuhn Drive
Chula Vista, CA 91914

Kathy Wright
New Mexico-American Water
Company, Inc.
Post Office Box 430
Clovis, NM 88102-0430

Michael Carmedy
1101 Laurel Oak Road
Voorhees, NJ 08043

Roy Stephenson, Esq.
Staff Counsel
Public Regulation Commission
224 E. Palace Avenue
Santa Fe, NM 87504

Richard B. Cole

1 BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION
2
3

4 IN THE MATTER OF THE ACQUISITION OF
5 AMERICAN WATER WORKS COMPANY, INC.
6 ("AMERICAN") BY THAMES WATER AQUA
7 HOLDINGS GmbH ("THAMES HOLDINGS")
8

9 Utility Case No. ____
10

11
12 NEW MEXICO-AMERICAN WATER COMPANY, INC.
13 ("NEW MEXICO-AMERICAN") AND THAMES HOLDINGS,
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15 APPLICANTS.
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23 DIRECT TESTIMONY

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25 OF
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27 MICHAEL CARMEDY
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DIRECT TESTIMONY OF MICHAEL CARMEDY

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Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.

A: My name is Michael Carmedy. My business office will be located at 1101 Laurel Oak Road, Voorhees, NJ 08043. I am employed as Senior Vice President and Commercial Director of Thames Water Americas. I also serve as a Board member of Elizabethtown Water Company.

Q. PLEASE DESCRIBE YOUR EMPLOYMENT HISTORY AND YOUR CURRENT RESPONSIBILITIES.

A. From 1982 through 1986, I attended the University of Kent in Canterbury, England where I earned a Bachelors Degree in Accounting, with Honors (BA (Hons) Accountancy). In 1990 I qualified as a Chartered Accountant, From 1986 to 1990, I worked as an Audit Senior with Moores Rowland, Chartered Accountants, I joined Thames Water Plc ("Thames") in 1991 as a Senior Auditor in its Internal Audit Department. Throughout my career I have held a variety of increasingly responsible positions, including Supervising Auditor and Investigations and Special Audits manager. In 1998, I moved to the position of Financial Controller, Thames Water Utility, Ltd., Engineering Division. In this position, I became responsible for project management for major U.S. acquisitions. A more detailed curriculum vitae is attached. I am

1 fully authorized to speak on behalf of Thames Water and to make the
2 commitments herein.

3 **Q. CAN YOU PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY?**

4 A. The purpose of my testimony is to provide the New Mexico Public Regulation
5 Commission ("**Commission**") with information regarding the manner in
6 which New Mexico-American will be managed and operated after the
7 contemplated acquisition is completed. The details of this transaction are set
8 forth in the Application filed concurrently herewith, which I incorporate by
9 reference as **Exhibit 1**. I will describe the terms of this transaction from my
10 perspective as a member of the Due Diligence Team representing Thames
11 and RWE with respect to the proposed transaction. Allow me to state at the
12 outset the proposed transaction will have no adverse impact on New Mexico-
13 American operations, employees and customer rates. Additionally, the
14 proposed transaction will have no adverse impact on the safety and reliability
15 of the system. In fact, as discussed below, the proposed merger offers many
16 potential benefits to New Mexico-American and its customers. More
17 specifically, I will provide to the Commission information explaining how
18 Thames will preserve and build upon the excellent reputation and record of
19 New Mexico-American and American Water Works ("**American**") after the
20 Acquisition is completed. Finally, I will address the requirements of

1 Commission Rule 450 and I will provide the necessary representations
2 required for the Commission to make the findings contained in § 450.7(c) of
3 the Rule.

4 **Q. PLEASE DISCUSS THE TERMS OF THE AGREEMENT.**

5 A. Pursuant to the terms of the Agreement, American will become a wholly-
6 owned subsidiary of Thames Holdings which, in turn, is a wholly-owned
7 subsidiary of RWE. New Mexico-American will continue to be a subsidiary of
8 American and will continue to exist as a New Mexico public utility corporation
9 subject to the jurisdiction and regulation of the Commission. The Agreement
10 provides that each issued and outstanding share of Common Stock, par
11 value \$1.25 per share, of American ("**American Common Stock**") not
12 owned by Thames Holdings, Acquisition Corp. or American, other than
13 shares owned by any holder who invokes appraisal rights under Delaware
14 law, shall be converted into the right to receive cash in consideration of
15 \$46.00 per share. The current authorized capital stock of American consists
16 of (i) 300 million shares of American Common Stock, (ii) 1,770,000 shares of
17 Cumulative Preferred Stock, par value \$25.00 per share (the "**Preferred**
18 **Stock**"), (iii) 750,000 shares of Cumulative Preference Stock, par value
19 \$25.00 per share (the "**Preference Stock**"), and (iv) 3 million shares of

1 Cumulative Preferential Stock, par value \$35.00 per share (the "**Preferential**
2 **Stock**"). As of September 30, 2001, 99,971,542 shares of American
3 Common Stock (excluding shares held by American as treasury shares),
4 101,777 shares of the Preferred Stock, 365,158 shares of the Preference
5 Stock and no shares of the Preferential Stock were issued and outstanding.
6 The Agreement requires American to redeem, prior to the closing of the
7 transaction, each outstanding share of the Preferred Stock at a redemption
8 price of \$25.25 per share, plus full cumulative dividends thereon, and each
9 outstanding share of the Preferential Stock at a redemption price of \$25.00
10 per share, plus full cumulative dividends thereon. The Agreement also
11 provides that, at the time of the closing of the transaction, each share of
12 American Common Stock owned by Thames Holdings, Acquisition Corp. or
13 American shall automatically be cancelled and cease to exist and no
14 consideration shall be delivered in exchange therefor. Under the Agreement,
15 RWE will provide Thames Holdings with sufficient funds to consummate the
16 transaction. The agreement will affect none of the outstanding debt owed
17 and recorded as liabilities on the books of New Mexico-American. Unless
18 retired or redeemed in accordance with its terms, all of that outstanding debt
19 will continue to be liabilities and obligations of New Mexico-American.
20 Likewise, none of New Mexico-American's assets will be affected by the

1 Agreement. That is to say, all of its assets will continue to be assets of New
2 Mexico-American.

3 **Q. PLEASE BRIEFLY DESCRIBE THE IMPACT OF THE TRANSACTION ON**
4 **NEW MEXICO-AMERICAN'S CORPORATE STRUCTURE.**

5 A. After the closing of the transaction described in the Agreement and Plan of
6 Merger ("**Agreement**"), dated September 16, 2001 by and among RWE
7 Aktiengesellschaft ("**RWE**"), Thames Water Aqua Holdings GmbH
8 ("**Thames Holdings**"), Apollo Acquisition Company ("**Acquisition Corp.**"),
9 and American, New Mexico.-American will continue to exist in the same
10 corporate form as it does today as a subsidiary of American. It will remain a
11 public utility corporation subject to the jurisdiction and regulation of the
12 Commission. As a result of the transaction, instead of American's stock
13 being held by many individual stockholders, Thames Holdings will acquire
14 American's Common Stock, and American will become a wholly-owned
15 subsidiary of Thames Holdings which, in turn, is a wholly-owned subsidiary of
16 RWE. Thames Water PLC ("**Thames**"), another subsidiary of RWE,
17 operates Thames Holdings' water business.

18 **Q: PLEASE BRIEFLY SUMMARIZE THAMES' OPERATIONS AND**
19 **EXPERIENCE.**

20
21 A: Thames operates the water division of Thames Holdings, bringing to Thames
22 Holdings its extensive experience and expertise as the largest water and

1 wastewater company in the United Kingdom and one of the largest water and
2 wastewater companies in the world, providing water-related services to over
3 43 million people throughout the United Kingdom, United States, Australia,
4 China, Indonesia, Malaysia, Puerto Rico, Turkey and other countries around
5 the world.

6 **Q. PLEASE DESCRIBE HOW THIS TRANSACTION WILL AFFECT THE**
7 **DAY-TO-DAY OPERATIONS AND MANAGEMENT OF NEW MEXICO-**
8 **AMERICAN?**

9
10 **A.** Thames is committed to using existing New Mexico-American management
11 and expertise. Operational control of New Mexico-American will remain as it
12 is today. Moreover, the transaction will not cause the relocation of the
13 operating headquarters from its current location at Clovis, New Mexico.

14 Further, it is important to note upon closing of the transaction, that
15 American Water's current management team, located in Voorhees, New
16 Jersey, will be responsible for managing all of Thames' business operations
17 in North, Central and South America. Thames will expand American's
18 corporate headquarters in Voorhees, New Jersey, to manage all of its
19 business operations in North, Central and South America.

20 **Q. IN YOUR OPINION, WILL THE TRANSACTION ADVERSELY AFFECT**
21 **NEW MEXICO-AMERICAN'S PRESENT ABILITY TO PROVIDE SAFE AND**
22 **ADEQUATE UTILITY SERVICE AT JUST AND REASONABLE RATES?**
23

1 A. Following this transaction, New Mexico American will continue to provide
2 high-quality water service that meets or exceeds New Mexico's regulatory
3 requirements. In addition, we are committed to ensuring that New Mexico-
4 American will maintain an adequate level of capital investment and best
5 operating practices to ensure safe and reliable service consistent with
6 applicable law.

7 **Q. IS THAMES' COMMITTED TO ENSURING THE SECURE OPERATION OF**
8 **NEW MEXICO-AMERICAN'S EXISTING SYSTEMS?**
9

10 A. We fully recognize and appreciate the increased expectations on the United
11 States water industry regarding infrastructure security following the tragic
12 events of September 11. Thames pledges its unqualified commitment to a
13 comprehensive security plan not only during the period of transition but also
14 for the years to come. A renewed emphasis on security is already well
15 underway throughout the American system. While American has taken many
16 steps to ensure its facilities' security, Thames will implement additional
17 measures whenever and wherever appropriate. While, for obvious reasons,
18 specifics with regard to the companies' security initiatives are highly
19 confidential, the companies are prepared to share their initiatives with
20 appropriate officials in a manner that will balance the mutual objectives of
21 comprehensive security planning and national security.

1 **Q. PLEASE DESCRIBE THE IMPACT OF THE PROPOSED TRANSACTION**
2 **ON NEW MEXICO-AMERICAN' EMPLOYEES.**

3
4 **A.** New Mexico-American's and American's employees are key to providing
5 customers with excellent, reliable service. This quality of service is also a
6 primary focus and a priority for Thames, and is one of the reasons it is such
7 an indispensable combination. The acquisition will not result in any change
8 in existing management or officers of New Mexico-American. All collective
9 bargaining agreements will also be honored.

10 **Q. WHAT, IF ANY, IMPACT WILL THE TRANSACTION HAVE ON NEW**
11 **MEXICO-AMERICAN RATES?**

12
13 **A.** The transaction itself will not result in any increase in rates. The transaction
14 is an acquisition of the common stock of American Water. There will be no
15 adverse changes to the operations of the subsidiaries of American Water as
16 a result of this transaction. Thames/RWE's rationale for this acquisition is
17 the growth of both the operating utilities and the unregulated water
18 businesses in the U.S. Relying on current management policies and control
19 over operations, New Mexico-American will continue to assure that its rates
20 are just and reasonable. None of the outstanding debt owed and recorded
21 as liabilities on the books of New Mexico-American, will be affected by the
22 Agreement. The transaction will cause no adverse change in the balance
23 sheet or financial position of New Mexico -American.

1 Further, the transaction will not result in any adverse changes in New
2 Mexico-American policies with respect to financing, accounting,
3 capitalization, rates, depreciation, maintenance, or other matters affecting the
4 public interest or utility operations.

5 New Mexico-American has reported its existing agreements and
6 transactions with affiliated companies to the Commission. As of the present
7 time, we have identified no transactions in which New Mexico-American is
8 acquiring goods or services from, or providing goods or services to,
9 companies that will become affiliates as a result of the transaction
10 contemplated by the Agreement. We fully understand that should such
11 transactions or arrangements arise, New Mexico-American will be required to
12 make all necessary disclosures and/or filings in accordance with the
13 Commission's requirements. New Mexico-American's rates will reflect the
14 costs of such transactions only to the extent permitted by future Commission
15 orders.

16 **Q. CAN YOU PROVIDE SOME EXAMPLES OF THE BENEFITS**
17 **ACHIEVABLE THROUGH THIS TRANSACTION?**

18
19 **A.** Yes. New Mexico-American stands to benefit from the best practices of
20 American and Thames. In terms of customer support and service, we
21 anticipate that New Mexico-American customers will benefit in those
22 instances where this combination delivers improved customer service that is

1 inherent when two industry leaders share such practical knowledge and
2 experience. The future benefits to be realized by New Mexico-American and
3 its customers include the following:

4 **Security**

5 Since the tragic events of September 11th, a renewed emphasis on security
6 has been underway throughout the American Water System. American
7 Water has been reviewing the security measures in place throughout its
8 system. As a result of this review, New Mexico-American is evaluating and
9 implementing new methods and procedures to ensure the security of its
10 operations. Thames, with water operations around the globe, has
11 considerable experience in operating water facilities and systems in regions
12 where security concerns have been a fact of life for some time. For example,
13 Great Britain has been subject to threat by IRA factors for decades, and by
14 Middle-Eastern terrorists since the Gulf War. We firmly believe New Mexico-
15 American, and ultimately our customers, will benefit from the sharing of
16 Thames' extensive experience in developing and implementing
17 comprehensive security measures to protect its customers throughout the
18 world. Thames stands ready and willing to utilize its expertise to enhance
19 New Mexico-American's security efforts. We look forward to beginning the
20 exchange of best practices as soon as possible. One important area for

1 such an exchange may be within the scope of facility security, a topic that
2 has come to the fore in the aftermath of September 11. American Water,
3 Thames and RWE happen to be the leading stewards of water quality and
4 safety on the two sides of the Atlantic Ocean. We will make security one of
5 the items that our joint integration team focuses on as it moves ahead. Both
6 companies have pledged their unqualified commitment to a comprehensive
7 security plan not only during the period of transition but also for the years to
8 come.

9 **Environmental Matters**

10 Further, both companies recognize the importance of conducting their
11 operations in an environmentally compatible manner, and as such, actively
12 promote nature conservation on their sites. American Water and its
13 subsidiaries have a strong environmental track record that will be further
14 enhanced through its association with Thames. American Water consistently
15 achieves outstanding records of annual compliance with Federal and State
16 Regulations. American's subsidiaries have received 47 awards from the US
17 Environmental Protection Agency Partnership for Safe Water. Thames is
18 also committed to environmental protection. Numerous Thames Water sites
19 have received the internationally recognized ISO 14001 Environmental
20 Standard. Thames also works with and supports a wide range of

1 environmental and conservation groups internationally, in part by voluntarily
2 conducting surveys that will assist these groups in implementing bio-diversity
3 protection projects. Additionally, Thames utilizes "green energy," with
4 seventeen combined heat and power plants running bio-gas and two sludge-
5 powered generators. The Merger will allow American and Thames to join
6 together to continue to enhance environmentally-friendly service for the
7 company's customers.

8 **Service Standards**

9 Additionally, in the area of service standards, American Water has earned an
10 enviable reputation throughout the United States. It maintains its facilities in
11 superior condition, and the company continues to ensure safe, reliable and
12 high-quality service to its customers through capital investment in its
13 infrastructure. Similarly, Thames is committed to excellence in its water
14 quality and service standards throughout the world. The Thames track
15 record of compliance with drinking water standards in the UK is now 99.89%,
16 while wastewater effluent compliance is 99.99%. Since privatization in 1989,
17 Thames has invested in excess of \$6 billion in enhancing the quality of its
18 service, including construction of an advanced water treatment system and
19 major renovations of water mains and sewage treatment works. Throughout
20 its system, Thames has established numerous programs to improve the

1 quality of its service, including cost-optimized network renewal and
2 refurbishment and the development of ultra-violet disinfection of drinking
3 water. Thames has every intention of continuing the long and proud service
4 that has come to be expected of the American Water System generally, and
5 New Mexico-American in particular.

6 **Customer Service**

7 For many years, both companies have demonstrated their strong
8 commitment to customer service and responsiveness. New Mexico-American
9 is dedicated to providing its customers with continuous customer service. Its
10 parent corporation, American, recently opened a state-of-the-art Customer
11 Service Center located in Alton, IL to assist its customers 24 hours a day.
12 Likewise, Thames also has a 24-hour customer service center that has won
13 the UK Utility Industry Achievement Award for Excellence three years in a
14 row. One of the key customer service issues facing the utility industry is
15 integration between the call center and the field service function. Thames
16 Water has developed and implemented an integrated approach to service
17 management inquiries by installing the latest information technology for
18 mobile field applications. This provides a direct, real-time link between the
19 system in use in the Call Center and the technicians in the field. This real-
20 time connection delivers critical GIS, work management system data. The

1 customer benefits by having problems ascertained, analyzed, and addressed
2 by field personnel in a more accurate and efficient manner. This new system
3 results in a much more professional and problem-free service and reduces
4 the need for customers to make repeated calls to different parts of the
5 organization. American will take advantage of Thames' experience to
6 implement a similar service, thereby improving service and reducing the time
7 and cost of delivery. Together, these two quality corporations will continue
8 this commitment and intend to increase customer service by utilizing the best
9 practices of both organizations.

10 **Research and Development**

11 In the area of research and development, American and Thames are both
12 recognized industry leaders. The pooling of our collective expertise will
13 make the combined entity a world leader in this area. Notably, Thames has
14 an annual research and development budget of \$13 million. Thames has
15 developed cutting-edge technologies in all areas of transmission and
16 distribution. This experience will be invaluable with regard to reducing future
17 capital expenditures as the New Mexico-American's infrastructure ages.

18 **Community Service**

19 The transaction will positively impact community development in the areas
20 served by New Mexico-American. Thames, RWE, and American all share a

1 long history of service in the communities where they operate. For American,
2 financial contributions to the community are usually focused on
3 environmental programs, as well as on initiatives that support the next
4 generation of community leaders. American's involvement goes far beyond
5 financial support. The company routinely involves the personal participation
6 and leadership of employees in important community programs. Thames
7 also has a long and illustrious track record of investing in local communities,
8 particularly in support of the environment and extra-needs customers.
9 Thames supports its employees' involvement in community groups through a
10 payroll program called "Give as you Earn." In this program, Thames matches
11 up to \$3,000 in charitable contributions raised by teams of employees.
12 Additionally, RWE participates in numerous community-oriented projects
13 around the globe, it sponsors a variety of projects in areas ranging from
14 promoting arts and culture to programs modernizing the water infrastructure
15 in developing countries. Companies such as American, RWE, and Thames
16 understand that a good reputation must be earned. They also understand
17 that it takes a great deal of work and commitment to maintain such
18 reputations. Clearly, the philosophy of corporate responsibility resides at the
19 core of the RWE, Thames, and American culture, and the philosophy will
20 continue.

1 **Q. WOULD YOU PLEASE ADDRESS THE REQUIREMENTS OF**
2 **COMMISSION RULE 450.7?**
3

4 **A.** We are preparing a General Diversification Plan to be incorporated with and
5 approved as a part of this transaction. It will be filed as soon as it is
6 completed. However, due to the rather complex corporate structure of RWE,
7 Thames Holdings and American, it is not exactly clear what is required under
8 Rule 450, therefore, we intend to review a draft of the Plan with Commission
9 staff prior to filing to assure that we meet their requirements.

10 Additionally, in order for the Commission to make its requisite findings,

11 Thames Holding agrees to the following mandates of Rule 450.7(c).

12 (1) the books and records of New Mexico-American will be kept
13 separate from those of non-regulated business and in accordance with the
14 Uniform System of Accounts;
15

16 (2) the Commission and its Staff will have access to the books,
17 records, accounts, or documents of the affiliate, corporate subsidiary, or
18 holding company pursuant to NMSA 1978, Sections 62-6-17 and 62-6-19;
19

20 (3) the supervision and regulation of New Mexico-American
21 pursuant to the Public Utility Act will not be obstructed, hindered, diminished,
22 impaired, or unduly complicated;
23

24 (4) New Mexico-American will not pay excessive dividends to
25 American, and American will not take any action which will have an adverse
26 and material effect on New Mexico-American's ability to provide reasonable
27 and proper service at fair, just, and reasonable rates;
28

29 (5) New Mexico-American will not, without prior approval of the
30 Commission:
31

1 (A) loan its funds or securities or transfer similar assets to
2 any affiliated interest, or
3

4 (B) purchase debt instruments of any affiliated interests or
5 guarantee or assume liabilities of such affiliated interests;
6

7 (6) Applicants will comply with all applicable federal and state
8 statutes, rules, or regulations, federal or state, have been or will be complied
9 with;
10

11 (7) upon order of the Commission, New Mexico-American will
12 have an allocation study (which will not be charged to ratepayers) performed
13 by a consulting firm chosen by and under the direction of the Commission;
14 and
15

16 (8) when required by the Commission, New Mexico-American will
17 have a management audit (which will not be charged to ratepayers)
18 performed by a consulting firm chosen by and under the direction of the
19 Commission to determine whether there are any adverse effects of Class II
20 transactions upon the utility.
21

22 **Q. HAVE THE APPLICANTS IN THIS PROCEEDING COMPLIED WITH THE**
23 **NOTICE REQUIREMENT OF RULE 450.9(B)?**
24

25 **A.** Yes. We have provided a copy of our filing to the Attorney General of the
26 State of New Mexico, and our counsel will discuss our Application with a
27 representative of that office.

28 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

29 **A.** Yes it does.
30
31
32

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE ACQUISITION OF
AMERICAN WATER WORKS COMPANY, INC.
("AMERICAN") BY THAMES WATER AQUA
HOLDINGS GmbH ("THAMES HOLDINGS")**

Utility Case No. ____

**NEW MEXICO-AMERICAN WATER COMPANY, INC.
("NEW MEXICO-AMERICAN") AND THAMES HOLDINGS,**

APPLICANTS.

CERTIFICATE OF SERVICE

I hereby certify that I caused true and correct copies of the foregoing and DIRECT TESTIMONY OF MICHAEL CARMEDY and DIRECT TESTIMONY OF DAVID P. STEPHENSON to be mailed and/or hand-delivered on December 20, 2001, to the following:

The Honorable Patricia Madrid
Attorney General
State of New Mexico
Post Office Drawer 1508
Santa Fe, NM 87504-1508

Thomas W. Olson, Esq.
Montgomery & Andrews, P.A.
325 Paseo de Peralta
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David Stephenson
American Water Works Company
880 Kuhn Drive
Chula Vista, CA 91914

Kathy Wright
New Mexico-American Water
Company, Inc.
Post Office Box 430
Clovis, NM 88102-0430

Michael Carmedy
1101 Laurel Oak Road
Voorhees, NJ 08043

Richard B. Cole

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE ACQUISITION OF
AMERICAN WATER WORKS COMPANY, INC.
("AMERICAN") BY THAMES WATER AQUA
HOLDINGS GmbH ("THAMES HOLDINGS")**

Utility Case No. _____

**NEW MEXICO-AMERICAN WATER COMPANY, INC.
("NEW MEXICO-AMERICAN") AND THAMES HOLDINGS,
APPLICANTS.**

**DIRECT TESTIMONY
OF
DAVID P. STEPHENSON**

DIRECT TESTIMONY OF DAVID P. STEPHENSON
Identification and Qualifications

1
2
3
4 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
5 **TELEPHONE NUMBER.**

6
7 A. My name is David P. Stephenson. My business address is 880 Kuhn Drive,
8 Chula Vista, California 91914. My telephone number is (619) 656-2436.

9 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY.**

10
11 A. I am employed by American Water Works Service Company, Inc. as the
12 Director of Rates and Revenues for the Western Region. The Western
13 Region consists of water and wastewater utilities located in Arizona,
14 California, Hawaii and New Mexico, including New Mexico-American Water
15 Company, Inc. ("New Mexico-American").

16 **Q. PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS THE**
17 **WESTERN REGION'S DIRECTOR OF RATES AND REVENUES.**

18
19 A. With the direction and approval of the Vice President and Treasurer, Western
20 Region, I am responsible for all rate, financing and acquisition applications in
21 the Western Region. I may be called upon to prepare other specific filings
22 dealing with regulatory matters, including correspondence relating to rates
23 and charges for utility service with the commissions regulating the Western
24 Region companies in Arizona, California, Hawaii and New Mexico.

25 **Q. DESCRIBE FOR THE COMMISSION YOUR EDUCATION.**

26
27 A. I received a Bachelor of Science in Business Administration, with an
28 emphasis in Accounting, from San Diego State University in 1977.

1 **Q. HAVE YOU HAD ANY OTHER TRAINING?**

2

3 A. Yes. I have attended various seminars on different aspects of the water
4 industry and rate evaluations, including the Bi-annual National Association of
5 Water Companies (NAWC) Utility Rate Seminar.

6 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

7

8 A. I have been employed by the American Water Works System since 1978.
9 The various positions I have held with the Company are: Accountant - 1978;
10 Accounting Superintendent for the Los Angeles Region - 1981; Assistant
11 Director of Accounting for the Western Region - 1983; Assistant Director of
12 Rates and Revenues for the Western Region - 1984; Director of Rates and
13 Revenues for the Western Region - 1986.

14 **Q. HAVE YOU HAD ANY OTHER PROFESSIONAL EXPERIENCES?**

15

16 A. Yes. I have served on the Accounting Committee of the California Water
17 Association and have been an instructor for the NAWC Bi-annual Utility Rate
18 Seminar on several different occasions.

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE UTILITY REGULATORY**
20 **COMMISSIONS?**

21

22 A. Yes. I have testified before the Arizona Corporation Commission in the
23 proceedings for Arizona-American Water Company, the California Public
24 Utilities Commission in all proceedings for the California-American Water
25 Company districts, and this Commission and its predecessor in proceedings
26 involving New Mexico-American.

Purpose of Testimony

1
2
3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

4
5 A. New Mexico-American and Thames Water Aqua Holdings GmbH ("Thames
6 Holdings") are jointly applying to the Commission for the authorizations,
7 consents and approvals needed under the Public Utility Act to consummate
8 the transaction (the "Transaction") contemplated by the Agreement and Plan
9 of Merger (the "Merger Agreement"), dated September 16, 2001, by and
10 among RWE Aktiengesellschaft ("RWE"), Thames Holdings, Apollo
11 Acquisition Company ("Apollo"), a Delaware corporation and wholly owned
12 subsidiary of Thames Holdings created for the purposes of implementing the
13 Agreement, and American Water Works Company ("American"), the parent
14 company of New Mexico-American. Pursuant to the Agreement, RWE will
15 acquire the outstanding common stock of American, and American will then
16 merge with Apollo, with American being the surviving corporation. Michael
17 Carmedy describes the Merger Agreement and the Transaction in his
18 testimony. In my testimony, I will briefly describe New Mexico-American and
19 its relationship with American. I will then discuss the effects of the Merger
20 Agreement and the Transaction on New Mexico-American and certain
21 benefits that New Mexico-American will receive from the affiliation with
22 Thames Holdings and RWE.

Description of New Mexico-American

Q. PLEASE DESCRIBE NEW MEXICO-AMERICAN.

A. New Mexico-American is a New Mexico corporation whose principal office is located at 1005 Norris St., Clovis, New Mexico 88101. Since 1986 New Mexico-American has been engaged in the business of providing water service to the public in Clovis, New Mexico, and nearby areas as a public utility subject to regulation by the Commission under the New Mexico Public Utility Act. Currently, New Mexico-American serves approximately 13,500 customers in the Clovis area. New Mexico-American's last general rate case was NMPRC Case No. 2817, decided by this Commission's predecessor in December 1998. As determined in that case, New Mexico-American's original cost rate base was approximately \$14.1 million and its annual revenue requirement was approximately \$6.3 million.

In Utility Case No. 3669, New Mexico-American also has an application pending before the Commission for the authorizations, consents and approvals necessary to acquire the stock of Edgewood Water, Inc. ("EWI") and to merge EWI into New Mexico-American. If that transaction is authorized, New Mexico-American will also provide water service to the community of Edgewood, New Mexico, and nearby areas.

1 **Q. IS NEW MEXICO-AMERICAN FACING ANY UNUSUAL CAPITAL**
2 **DEMANDS?**

3
4 **A.** Yes. In the Clovis area New Mexico-American's water supply is exclusively
5 ground water produced from the High Plains aquifer, a part of the Ogallala
6 basin. The saturated producing thickness of the aquifer is depleting rapidly,
7 primarily as a function of irrigated farming in the region, which includes west
8 Texas. As its existing wells deplete, to maintain adequate delivery capacity
9 New Mexico-American anticipates adding one to two new wells per year to its
10 system and must acquire the water rights necessary to support the additional
11 production. In Utility Case No. 3631, New Mexico-American has an
12 application pending for a cost recovery surcharge to support the acquisition
13 of approximately 4,685 acres of irrigated farmland and associated water
14 rights. This acquisition will secure sources of supply for New Mexico-
15 American for the near and intermediate term. The total cost of the
16 acquisition is approximately \$7 million and illustrates the magnitude of the
17 capital investment New Mexico-American faces. As wells and related
18 transmission facilities are developed on the property, additional capital will be
19 required.

20 **Q. HOW IS NEW MEXICO-AMERICAN RELATED TO AMERICAN?**
21

22 **A.** New Mexico-American is substantially a wholly owned subsidiary of
23 American. I say "substantially" because the New Mexico statute under which
24 New Mexico-American is incorporated requires each director to be a

1 stockholder. Each of New Mexico-American's directors therefore owns one
2 share of stock representing a negligible percentage of New Mexico-
3 American's issued stock.

4 **Q. PLEASE DESCRIBE AMERICAN.**

5
6 A. American is a Delaware corporation with its principal office located in
7 Voorhees, New Jersey (1025 Laurel Oak Road, Voorhees, NJ 08043).
8 Currently, the common stock of American is publicly traded on the New York
9 Stock Exchange. Its subsidiary operating companies provide water,
10 wastewater and other related services to more than 12 million people in 28
11 states and three Canadian provinces.

12 **Q. DOES NEW MEXICO-AMERICAN BENEFIT THROUGH ITS**
13 **AFFILIATION WITH AMERICAN.**

14
15 A. Yes. The "American System" is a term used to describe all of the operating
16 utilities owned by American as well as all of the non-operating entities and
17 service providers owned by American. Under the umbrella of the American
18 System each subsidiary water company, operating independently, shares in
19 the benefits and economies of scale afforded by size, identity and access to
20 technical, financial and other resources.

21 American Water Works Service Company ("Service Company") is a
22 subsidiary of American that was specifically created to provide each
23 operating company access to qualified management, engineering, planning
24 and financial services and resources on an efficient and economical basis.

Direct Testimony of David P Stephenson
Utility Case No. ____

1 This concept broadens investor approval, enhances the attraction of capital
2 and assures that the facilities of each operating company are properly
3 designed, constructed, maintained and managed.

4 Another recently formed American subsidiary, American Water Capital Corp.
5 ("American Capital"), was specially created to provide financing support for
6 all of the regulated operating subsidiaries. Through American Capital, the
7 long and short-term financing needs of the operating companies can be
8 consolidated and served on a more cost-effective basis.

9 Both Service Company and American Capital contract with New Mexico-
10 American to provide management, administration, and financing along with
11 staff assistance in various technical and professional areas required for
12 proper utility operation. This support includes providing professionals in the
13 technical fields of accounting, budgeting, engineering, operations, rate
14 design, regulatory practice, finance, water quality, research, information
15 systems, personnel administration and training, purchasing, insurance, safety
16 and community relations. It also includes benefits such as volume
17 purchasing of inventory and supply items, and access to state-of-the-art
18 water quality testing facilities. These necessary services are contracted for
19 and provided at cost, and the related contracts have been filed with the
20 Commission. The Commission has reviewed New Mexico-American's
21 relationship and transactions with Service Company in New Mexico-

1 American's two general rate cases and has accepted the transactions for
2 ratemaking purposes.

3 **Effects of the Transaction**
4

5 **Q. IS NEW MEXICO-AMERICAN A PARTY TO THE AGREEMENT OR THE**
6 **TRANSACTION?**
7

8 A. No, New Mexico-American's parent, American is a party to the Agreement
9 and to the Transaction.

10 **Q. WHAT AFFECT WILL THE TRANSACTION HAVE ON THE OPERATIONS**
11 **OF NEW MEXICO-AMERICAN?**
12

13 A. There will be no changes in the planned day-to-day operations. As Michael
14 Carmedy explains, Thames Holdings intends to rely on incumbent local
15 management, and consequently, the day-to-day operations of New Mexico-
16 American will continue as planned today.

17 **Q. WILL THE TRANSACTION DIMINISH NEW MEXICO-AMERICAN'S**
18 **ABILITY TO PROVIDE ADEQUATE, RELIABLE, EFFICIENT, AND SAFE**
19 **SERVICE?**
20

21 A. No. The Transaction does not contemplate any changes in the existing
22 management and officers of New Mexico-American. Thus, New Mexico-
23 American will continue to have proven management experience along with
24 enhanced capability to provide safe, adequate and reliable service to the
25 public. The Transaction will permit the companies to combine resources and
26 expertise that will, among other things, create opportunities for sharing best
27 operating practices; increase access to capital markets; increase

1 opportunities for growth in the water and wastewater market; and enhance
2 research and development.

3 **Q. DOES NEW MEXICO-AMERICAN HAVE IN PLACE SPECIFIC**
4 **PROGRAMS THAT YOU BELIEVE WILL BENEFIT FROM ACCESS TO**
5 **THAMES' PERSONNEL AND RESOURCES?**
6

7 **A.** Yes. System security is a good example. Since the tragic events of
8 September 11th, New Mexico-American, like other operating companies of
9 American, has been conducting a review of security measures in place
10 throughout its system. As a result of that review, new security measures and
11 programs have been and will continue to be implemented. As Mr. Carmedy
12 discusses, Thames, with water operations around the globe, has
13 considerable experience in operating water facilities and systems in regions
14 where, for some time, security concerns have been a fact of life. I believe
15 that Thames' experience in this regard will benefit New Mexico-American
16 significantly in developing new security programs and measures. As Mr.
17 Carmedy also describes, when the resources and capabilities of the two
18 organizations are pooled, we expect to realize additional benefits in areas
19 such as environmental compliance and protection, service standards,
20 customer service, and research and development. American, RWE and
21 Thames also share a common philosophy of civic service, support and
22 involvement that their partnership will reinforce and enhance.

1 **Q. WILL ANY OF NEW MEXICO-AMERICAN'S PRACTICES OR POLICIES**
2 **CHANGE AS A RESULT OF THE TRANSACTION?**

3
4 **A.** No changes are anticipated in planned day-to-day operations or
5 management of New Mexico-American as a result of the Transaction. The
6 Transaction is not expected to result in any adverse changes to New Mexico-
7 American's policies with respect to service to customers, employees,
8 operations, financing, accounting, capitalization, rates, depreciation,
9 maintenance, or other matters affecting the public interest or utility
10 operations. The Transaction will cause no changes in local staffing or
11 compensation, and the value of employee benefits will not be diminished.

12 **Q. WILL NEW MEXICO-AMERICAN ISSUE, ASSUME OR GUARANTEE**
13 **ANY SECURITIES IN CONNECTION WITH THE AGREEMENT OR THE**
14 **TRANSACTION?**

15
16 **A.** No, it will not.

17
18 **Q. WILL NEW MEXICO-AMERICAN SELL, TRANSFER, OR OTHERWISE**
19 **DISPOSE OF ANY OF ITS PROPERTY, PLANT, EQUIPMENT OR OTHER**
20 **ASSETS IN CONNECTION WITH THE AGREEMENT OR THE**
21 **TRANSACTION?**

22
23 **A.** No.

24
25 **Q. WILL NEW MEXICO-AMERICAN PURCHASE OR OTHERWISE ACQUIRE**
26 **STOCK OR OTHER OWNERSHIP INTERESTS OF ANY PERSON OR**
27 **LOAN MONEY TO ANY PERSON IN CONNECTION WITH THE**
28 **AGREEMENT OR THE TRANSACTION.**

29
30 **A.** It will not.

1 Q. WILL NEW MEXICO-AMERICAN PURCHASE OR OTHERWISE ACQUIRE
2 ANY PLANT, PROPERTY, EQUIPMENT OR OTHER ASSETS IN
3 CONNECTION WITH THE AGREEMENT OR THE TRANSACTION.
4

5 A. No.
6

7 Q. HOW WILL THE TRANSACTION AFFECT NEW MEXICO-AMERICAN'S
8 EMPLOYEES?
9

10 A. The Transaction is not expected to affect staffing levels. As Mr. Carmedy
11 indicates, however, employees of New Mexico-American should experience,
12 as a result of the Transaction, additional opportunities for career growth and
13 training.

14 Q. WILL THE TRANSACTION IMPAIR NEW MEXICO-AMERICAN'S ABILITY
15 TO RAISE NECESSARY CAPITAL ON REASONABLE TERMS OR TO
16 MAINTAIN A BALANCED CAPITAL STRUCTURE?
17

18 A. No. The Transaction will not impair and, as Mr. Carmedy discusses, is
19 expected to enhance New Mexico-American's ability to raise necessary
20 capital on reasonable terms and to maintain a reasonable capital structure.

21 Q. WILL NEW MEXICO-AMERICAN REMAIN SUBJECT TO ALL
22 APPLICABLE LAWS, REGULATIONS, RULES, DECISIONS, ORDERS
23 AND POLICIES GOVERNING THE REGULATION OF NEW MEXICO
24 PUBLIC UTILITIES?
25

26 A. Yes, it will.
27

28 Q. WILL THE TRANSACTION AFFECT ANY OF NEW MEXICO-AMERICAN'S
29 OBLIGATIONS UNDER EXISTING CONTRACTS WITH CUSTOMERS OR
30 OTHERS?
31

32 A. No. New Mexico-American will continue to honor all of its customer and
33 regulatory obligations.

1 **Q. WILL THE TRANSACTION HAVE ANY ADVERSE RATE IMPACT ON**
2 **RETAIL CUSTOMERS?**

3
4 **A.** No. The Transaction will not have any adverse impact on the existing rates
5 for New Mexico-American. New Mexico-American will continue to operate
6 under its existing tariffs and rate structures (until such time as they are
7 amended in accordance with New Mexico law). There are no contemplated
8 changes in the balance sheets or financial position of New Mexico-American
9 as a result of the Transaction. Further, to the extent that any savings may
10 result from the Transaction, the level of such savings, if any, reflected in
11 future rate case test years will be passed through to customers in the rates
12 the Commission approves. Thus, the amount of resulting savings, if any,
13 reflected in future rate case test years may partially offset the rise in the cost
14 of providing water service and moderate the magnitude of future rate
15 increase requests.

16 **Q. WILL THE TRANSACTION AFFECT NEW MEXICO-AMERICAN'S**
17 **CAPITALIZATION?**

18
19 **A.** No. As noted above, the Transaction itself is not expected to affect New
20 Mexico-American's balance sheet.

21 **Q. DO THE JOINT APPLICANTS SEEK THE COMMISSION'S APPROVAL**
22 **OF THE AGREEMENT ON AN EXPEDITED BASIS?**

23
24 **A.** Yes. The consummation of the Transaction and the benefits to be derived
25 therefrom, as discussed above, will be realized more expeditiously if the
26 Application is considered by the Commission as quickly as possible. Every

Direct Testimony of David P Stephenson
Utility Case No. _____

1 effort has been and will be made to provide the Commission with all the
2 information and assurances that it needs to promptly consider the
3 Transaction. For these reasons, Joint Applicants respectfully request that
4 the Commission process this matter and issue the requested relief on an
5 expedited basis.

6 **Q. IS THERE OTHER INFORMATION THAT NEW MEXICO-AMERICAN WILL**
7 **SUBMIT IN SUPPORT OF THIS APPLICATION?**

8
9 A. As Mr. Carmedy notes, in accordance with the Commission's Rule 450, the
10 applicants will prepare and file a general diversification plan as soon as
11 practicable. In that regard, we also intend to seek clarification and assistance
12 from the Commission's staff in applying the requirements and specifications
13 of Rule 450 to the organizations involved in the Transaction.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15
16 A. Yes it does.
17
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NEW YORK

**BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

-----X
Joint Petition of Long Island Water Corporation, :
American Water Works Company, Inc., :
Thames Water Aqua Holdings GmbH, and :
Apollo Acquisition Company for Approval of an : Case 01-W-____
Agreement and Plan of Merger Pursuant to :
Section 89-h of the New York State :
Public Service Law :
-----X

**JOINT PETITION OF
LONG ISLAND WATER CORPORATION,
AMERICAN WATER WORKS COMPANY, INC.,
THAMES WATER AQUA HOLDINGS GMBH, AND
APOLLO ACQUISITION COMPANY FOR APPROVAL
OF AN AGREEMENT AND PLAN OF MERGER**

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Noelle M. Kinsch
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One Commerce Plaza, Suite 2020
99 Washington Avenue
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Frank J. Miller
William J. Cronin
Huber Lawrence & Abell
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New York, New York 10158

Dated: December 20, 2001

**BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

-----X
Joint Petition of Long Island Water Corporation, :
American Water Works Company, Inc., :
Thames Water Aqua Holdings GmbH, and :
Apollo Acquisition Company for Approval of an : **Case 01-W-_____**
Agreement and Plan of Merger Pursuant to :
Section 89-h of the New York State :
Public Service Law :
-----X

INTRODUCTION

This Joint Petition of Long Island Water Corporation ("Long Island Water"), American Water Works Company, Inc. ("American"), Thames Water Aqua Holdings GmbH ("Thames Holdings"), and Apollo Acquisition Company ("Acquisition Co.") (collectively "Petitioners"), filed pursuant to Section 89-h of the New York State Public Service Law ("Section 89-h"), requests that the New York State Public Service Commission ("Commission") approve the purchase of the stock of American, as described herein, on an expedited basis.¹

As more particularly described in this Joint Petition, an Agreement and Plan of Merger ("Agreement"), by and among RWE Aktiengesellschaft ("RWE"), American, Thames Holdings and Acquisition Co., was entered into on September 16, 2001. A copy of the Agreement is attached as Exhibit A. The Agreement provides that Acquisition Co. shall be merged with and into American, the parent of Long Island Water. Upon completion of the transaction, Acquisition Co. will dissolve and American shall be the surviving corporation and shall continue its corporate existence under Delaware law.

¹ Because this merger involves the acquisition of stock at the parent company level, the Commission should disclaim jurisdiction and regard this Petition as simply notification of the transaction. If the Commission reviews the Petition on the merits, the Petitioners request that such review be done expeditiously.

THE TRANSACTION

1. Long Island Water, a corporation organized and existing under the laws of the State of New York, with its principal office located at 733 Sunrise Highway, Lynbrook, New York, is a regulated water-works corporation in New York. Long Island Water serves approximately 74,000 customers in southwestern Nassau County, New York. A certified copy of Long Island Water's Amended and Restated Certificate of Incorporation is attached as Exhibit B.

2. American, a corporation organized and existing under the laws of the State of Delaware, with its principal office located at 1025 Laurel Oak Road, Voorhees, New Jersey, is the parent of Long Island Water. American and its subsidiaries now have approximately 6,300 employees and provide water, wastewater and other water resource management services to a population of approximately twelve million in twenty-eight states and Canada. A certified copy of American's Restated Certificate of Incorporation is attached as Exhibit C.

3. Thames Holdings, with its offices to be located at 1101 Laurel Oak Road, Voorhees, New Jersey, is a corporation organized under the laws of the Federal Republic of Germany. Thames Holdings is a wholly-owned subsidiary of RWE.

4. Thames Water PLC ("Thames"), a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom, is a wholly-owned subsidiary of Thames Holdings. Thames operates all of the water business of Thames Holdings and brings to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of largest in the world, providing water-related services to over 43 million people worldwide. A description of Thames is attached as Exhibit D.

5. RWE is a German corporation and a leading multi-utility provider. RWE is the parent of Thames Holdings and the grandparent of Thames. A description of RWE is attached as Exhibit E.

6. Acquisition Co., a Delaware corporation, is a wholly-owned subsidiary of Thames Holdings created for the purpose of implementing the Agreement. Acquisition Co. will dissolve subsequent to the completion of the merger.

7. Organizational charts, reflecting the current and proposed corporate structure, are attached as Exhibit F.

8. The financial information relating to Thames Holdings is attached as Exhibit G.

9. The financial information relating to American is attached as Exhibit H.

10. The Agreement provides that Acquisition Co. will merge into American. American will be the surviving company and will continue to conduct its business as a wholly-owned subsidiary of Thames Holdings.

11. Long Island Water will continue to be a wholly-owned subsidiary of American and will continue to exist as a New York water-works corporation subject to the jurisdiction and regulation of the Commission.

12. The Agreement provides that each issued and outstanding share of American's Common Stock (par value \$1.25 per share) not owned by Thames Holdings, Acquisition Co. or American (as treasury stock) other than those shares held by American shareholders who did not vote in favor of the merger and have properly asserted appraisal rights under Delaware law, shall be converted into the right to receive cash consideration of \$46.00 per

share. The total value of the transaction is approximately \$7.6 billion, including the assumption of debt.

13. As of September 30, 2001, the authorized capital stock of American consisted of (i) 300,000,000 shares of American Common Stock; (ii) 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"); (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"); and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

14. As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding shares held by American as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The Agreement requires American to redeem, prior to closing the transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of the Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the closing of the transaction, each share of American Common Stock owned by Thames Holdings, Acquisition Co. or American, as treasury shares, shall automatically be canceled and cease to exist and no consideration shall be delivered in exchange therefor.

15. In furtherance of the Agreement, RWE will cause Thames Holdings to have funds sufficient to consummate the transaction.

16. The Agreement is conditioned upon, among other things, obtaining (i) necessary state public utility regulatory approvals; and (ii) the approval of American's

shareholders. A statement listing the filings made or to be made with Federal and state authorities before the proposed transaction can be consummated is attached as Exhibit I. A Power of Attorney on behalf of RWE authorizing and approving the proposed transaction is attached as Exhibit J. Certified resolutions of the Board of Directors of American authorizing and approving the proposed transaction are attached as Exhibit K.

JURISDICTION AND REGULATORY APPROVALS

17. This petition is being filed pursuant to Section 89-h which provides in relevant part that “[n]o [water-works] corporation shall directly or indirectly acquire the stock or bonds of any other corporation incorporated for, or engaged in, the same or a similar business, or proposing to operate or operating under a franchise from the same or other municipality, unless authorized to do so by the commission [and] no stock corporation of any description, domestic or foreign, other than a water-works corporation, shall purchase or acquire, take or hold, more than ten per centum of the voting capital stock issued by any water-works corporation organized or existing under or by virtue of the laws of this state ...” without the consent of the Commission.

18. In considering a request for approval pursuant to Section 89-h, the Commission is required to assess whether the transaction is in the public interest. The proposed transaction will cause no adverse impact to the customers of Long Island Water and is in the public interest because of the benefits more specifically described in paragraphs 20-34 below.

19. The merger will be transparent to Long Island Water. All of its outstanding common stock is currently owned by American and will continue to be owned by American after the merger.

20. Long Island Water will continue to provide safe and adequate service in fulfillment of its obligations under New York law. Thames Holdings intends to retain Long

Island Water's incumbent local management. Consequently, Long Island Water will continue its current high-quality service. As more particularly described below, after the transaction, Long Island Water will have enhanced access to capital, and will be better positioned to meet future demands and to ensure that high-quality service is maintained.

21. The transaction involving Thames Holdings and American will have no adverse impact on the public interest. To the contrary, the association of these two companies will benefit the customers and employees of Long Island Water and will promote the public interest by combining resources and expertise that will create opportunities for sharing best operating practices.

22. The transaction will permit Long Island Water to utilize Thames' experience and expertise in safeguarding its water systems. Thames, with water operations around the globe, has considerable experience in operating water facilities and systems in regions where security concerns have been a fact of life for some time. Long Island Water, and ultimately its customers, will significantly benefit from the sharing of Thames' extensive experience in developing and implementing comprehensive security measures to protect its customers and employees throughout the world.

23. The need to comply with increasingly stringent water quality and environmental standards, while also rehabilitating and replacing aging water infrastructure, has created substantial demands for capital investment by water utilities. Although American has been successful in raising needed funds, the financial resources and backing of RWE/Thames will enhance Long Island Water's access to capital markets. Enhanced access to capital markets at reasonable costs will be a benefit to Long Island Water and its customers. Enhanced access to

capital will increase Long Island Water's ability to replace aging infrastructure and implement new technology.

24. The association with Thames will further enhance American and its subsidiaries' strong environmental track records. The transaction enhances Long Island Water's ability to respond to environmental challenges. Backed by RWE's annual research and development budget, Thames is conducting several programs in the area of renewable energy. Such programs include the use of solar power, fuel cell technology, wind power and local heat and power generating systems, which offer the potential of ameliorating the cost of electricity used in the distribution and treatment of water. The goal of Thames and American is to facilitate new and expanded environmentally friendly programs that will benefit Long Island Water and its customers.

25. The transaction will allow a sharing of research and development between American and Thames. American is recognized as an industry leader in the identification and detection of pathogenic organisms, cryptosporidium being a prime example. Thames enjoys a comparable reputation in the area of water quality monitoring and treatment. The combination of these research and development capabilities offers potential benefits to the customers of Long Island Water.

26. The transaction contemplated by the Agreement will have no negative impact on the employees of Long Island Water. The transaction is predicated on growth through achieving accelerated business development. Further, no overlap exists between Thames' current U.S. operations and Long Island Water's operations. The transaction will cause no changes in local staffing or compensation, and the value of employee benefits will not be

diminished. In fact, the day-to-day operations and management of Long Island Water are not expected to change as a result of this transaction.

27. The transaction will benefit Long Island Water's employees by providing increased opportunities for training and career development. Like American, Thames firmly believes in equipping its employees with the skills and tools needed to perform at the highest possible level.

28. The transaction will result in no adverse changes in Long Island Water's policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.

29. The transaction will not result in the subsidization of non-utility activities by Long Island Water or its customers. Long Island Water does not engage in a significant level of non-utility activity. To the extent that Long Island Water may engage in such activities in the future, it will continue to maintain its books and records in such a manner as to fairly and reasonably allocate costs and facilities between utility and non-utility activities and allow the Commission to identify those that are properly included for ratemaking purposes.

30. The transaction will not impair Long Island Water's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure.

31. Long Island Water will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of New York public utilities.

32. The transaction will have no adverse impact on existing Long Island Water rates. Long Island Water will continue to operate under its existing tariffs and rate structures (until such time as such tariffs and rate structures are revised in accordance with New

York law). This transaction itself will cause no adverse changes in the balance sheet or financial position of Long Island Water.

33. Long Island Water's ratepayers will not be asked to pay transaction costs or the acquisition premium.

34. American has a long history of service in the communities where it operates. The philosophy of corporate responsibility to the communities served resides at the core of the RWE, Thames, and American cultures, and this philosophy will continue.

35. Petitioners respectfully request that the Commission process the Joint Petition on an expedited basis. Expeditious disposition is appropriate and necessary because the proposed merger, as described above, is clearly in the public interest and will mitigate the apprehension among employees that invariably exists until the merger is effective. Indeed, because this transaction involves an indirect acquisition of Long Island Water, and requires no jurisdictional changes in the operational structure of Long Island Water, the level of scrutiny that might be required for a direct acquisition is not warranted here. For these reasons, the Petitioners respectfully request that the Commission process this matter and issue the requested relief on an expedited basis.

NOTICE AND COMMUNICATIONS

36. All correspondence and communications to this proceeding are to be addressed to the following:

On behalf of Thames Holdings, RWE and Acquisition Co.:

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and

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On behalf of Long Island Water and American:

Frank J. Miller
William J. Cronin
Huber Lawrence & Abell
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wcronin@huberlaw.com

WHEREFORE, the Petitioners respectfully request:

A. That the Commission issue an Order (i) approving the transaction contemplated in the Agreement; and (ii) authorizing Thames Holdings, RWE or any similarly situated corporation to acquire indirect control of Long Island Water through the acquisition of the capital stock of American, pursuant to Section 89-h; and (iii) determining that no further approval of the Commission is required with regard to the Agreement; and

B. That the Commission expedite the processing of this request in order to permit the transaction to proceed as soon as reasonably possible given the desire to close the transaction and proceed to achieve the benefits of the transaction which are likely to be achieved by the combining of the best practices of Thames and American; and

C. Such other and further relief as the Commission may deem appropriate or necessary to effectuate the terms of the Agreement.

Respectfully submitted,

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Attorneys for
Thames Water Aqua Holdings GmbH
and
RWE Aktiengesellschaft
and
Apollo Acquisition Company

Frank J. Miller
William J. Cronin
Huber Lawrence & Abell
605 Third Avenue
New York, New York 10158
Tel: (212) 455-5517

Attorneys for
Long Island Water Corporation
and
American Water Works Company, Inc.

AL 73233.5

VERIFICATION

JAMES MC GIVERN, being duly sworn according to law, upon his oath, deposes and says:

1. I am the Managing Director of the Americas of Thames Water Plc.
2. I have been appointed, via Power of Attorney, as the agent and attorney with full power and authority to act for Thames Water Aqua Holdings GmbH and in Thames Water Aqua Holdings GmbH's name to sign, execute or otherwise deliver any petitions, applications, notices of intention, documents, agreements, stipulations, pleadings, verifications, or the like, on behalf of Thames Water Aqua Holdings GmbH with respect to obtaining all necessary approvals of any state public utility commission of the acquisition by Thames Water Aqua Holdings GmbH, or a wholly-owned subsidiary of Thames Water Aqua Holdings GmbH, of American Water Works Company, Inc., and its subsidiaries.
3. I have read the contents of the foregoing Petition and hereby verify that the statements therein contained are true and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of _____, 2001.

Notary Public

VERIFICATION

RONALD E. WALSH, being duly sworn according to law, upon his oath, deposes
and says:

1. I am the Secretary of Apollo Acquisition Company and am authorized to
make this Verification on behalf of Apollo Acquisition Company.

2. I have read the contents of the foregoing Petition and hereby verify that
the statements therein contained are true and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of ____, 2001.

Notary Public

VERIFICATION

ROBERT J. GALLO, being duly sworn according to law, upon his oath, deposes
and says:

1. I am the President of Long Island Water Corporation and am authorized
to make this Verification on behalf of Long Island Water Corporation and American Water
Works Company, Inc.

2. I have read the contents of the foregoing Petition and hereby verify that
the statements therein contained are true and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of _____, 2001

Notary Public

EXHIBIT LIST

- Exhibit A - Agreement and Plan of Merger dated as of September 16, 2001, among RWE Aktiengesellschaft, Thames Water Aqua Holdings GmbH, Apollo Acquisition Company, and American Water Works Company, Inc.
- Exhibit B - Certified Copy of Amended and Restated Certificate of Incorporation of Long Island Water Company, Inc.
- Exhibit C - Certified Copy of Restated Certificate of Incorporation of American Water Works Company, Inc.
- Exhibit D - Description of Thames Water PLC.
- Exhibit E - Description of RWE Aktiengesellschaft.
- Exhibit F - Organizational Charts Reflecting the Current and Proposed Corporate Structure.
- Exhibit G - Financial Information Relating to Thames Water Aqua Holdings GmbH. (Attached Separately).
- Exhibit H - Financial Information Relating to American Water Works Company, Inc.
- Exhibit I - Statement of Federal and State Authorities From Which Approval Must Be Obtained Before the Proposed Transaction May Be Consummated.
- Exhibit J - Power of Attorney on behalf of RWE Authorizing and Approving the Proposed Transaction.
- Exhibit K - Certified Resolutions of the Board of Directors of American Water Works Company, Inc. Authorizing and Approving the Proposed Transaction.

OHIO

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Notice of American Water)	
Works Company, Inc. and Thames Water)	
Aqua Holdings GmbH of a Transfer of)	Case No. 01-3220-WW-UNC
Ownership and Request for Declaration That)	
Approval of the Transfer is Not Required.)	

**NOTICE OF
AMERICAN WATER WORKS COMPANY, INC. AND
THAMES WATER AQUA HOLDINGS GMBH
OF A TRANSFER OF OWNERSHIP
AND
REQUEST FOR DECLARATION
THAT APPROVAL OF THE TRANSFER IS NOT REQUIRED**

Now come American Water Works Company, Inc. (AWW) and Thames Water Aqua Holdings GmbH (Thames Holdings), on behalf of itself and its parent holding company, RWE Aktiengesellschaft (RWE), and hereby provide notice to the Public Utilities Commission of Ohio (Commission) of the September 16, 2001 Agreement and Plan of Merger (Agreement) whereby AWW, the parent company of Ohio-American Water Company, Inc. (Ohio-American), will become a wholly-owned subsidiary of Thames Holdings, which in turn is a wholly-owned subsidiary of RWE. AWW and Thames Holdings seek a declaration from the Commission that approval of this transfer of ownership is not required. Alternatively, the parties request that the Commission approve the transaction on an expedited basis.

THE PARTIES

1. AWW is a Delaware corporation with its principal offices located at Voorhees, New Jersey. AWW provides water, wastewater and other water resource management services to a population of approximately 12 million people in 28 states and Canada. AWW is

the largest publicly traded business in the United States devoted exclusively to the water and wastewater and water resource management services.

2. AWW is the parent corporation of Ohio-American, an Ohio corporation, with its principal office located at Marion, Ohio. Ohio-American is a public utility and water works company as defined by Ohio Revised Code (R.C.) Sections 4905.02 and 4905.03(A)(8) respectively. Ohio-American owns and operates several non-contiguous water systems located within four districts in and around Ashtabula, Lawrence County, Marion and Tiffin, Ohio. Ohio-American is a wholly-owned subsidiary of AWW,

3. Thames Holdings, with its principal offices to be located at Voorhees, New Jersey, is a company organized under the laws of the Federal Republic of Germany and is a wholly-owned subsidiary of RWE. A description of RWE is attached as Exhibit A.

4. Thames Water Plc (Thames) is a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom. Thames operates all of the water business of Thames Holdings and brings to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to over 43 million people world-wide. A description of Thames is attached as Exhibit B.

THE TRANSACTION

5. Under the terms of the Agreement, AWW will become a wholly-owned subsidiary of Thames Holding. Ohio-American will continue to be a wholly-owned subsidiary of AWW and will continue to exist as an Ohio public utility subject to the regulation of the Commission.

6. The parties to the Agreement are RWE, Thames Holdings, Apollo Acquisition Company (Acquisition Corp.), a Delaware corporation and wholly-owned subsidiary of Thames Holdings created for the purposes of implementing the Agreement, and AWW. The Agreement provides that, subject to obtaining certain regulatory approvals and other conditions, Acquisition Corp. shall be merged with and into AWW, who shall then be the surviving corporation and shall continue its corporate existence under Delaware law.

7. None of the outstanding debt, owed and recorded as liabilities on the books of Ohio-American, will be affected by the Agreement. All of that outstanding debt will continue to be liabilities and obligations of Ohio-American.

8. Attached hereto as Exhibits C and D are diagrams depicting the corporate organization of the parties to the transaction both prior to the acquisition and after it is consummated.

EFFECT OF THE TRANSACTION

9. The above-described transfer of ownership of AWW to Thames Holdings, a holding company transaction company, will not change the operations of Ohio-American and thus the day-to-day operations of Ohio-American will continue in the same manner as today. Ohio-American will continue to operate under its existing tariffs and rate structures. There are no contemplated changes in the balance sheets or financial position as a result of this transaction. The transaction will cause no changes in Ohio-American's staffing and compensation, and employee benefits will not be diminished. Thames Holdings intends that AWW continue to remain as the immediate parent company of Ohio-American, keeping the same relationship between AWW and Ohio-American as exists prior to the transaction. Consequently, no changes

in day-to-day operations and management of Ohio-American are anticipated as a result of the transfer.

JURISDICTION OF THE COMMISSION

10. As noted above, AWW and Thames Holdings seek a declaration from the Commission that approval of the transfer of ownership of AWW is not required under Ohio law and the regulatory framework for waterworks companies. Regulatory approval is not required because there is no specific statute mandating Commission approval of such a transaction and the Ohio Supreme Court has held that similar transfers of ownership do not come within the Commission's purview. Nonetheless, because the Commission has, on prior occasions, asserted jurisdiction over some holding company ownership transfers, the parties seek a specific order declaring that this transfer is not subject to the Commission's regulatory review and approval. Should the Commission determine that regulatory approval is required, AWW and Thames Holdings request that such approval be expeditiously granted, for all of the reasons set forth in this application.

11. The Commission's authority over the issuance of securities, asset transfers, the merger of public utilities operating in Ohio, and other transactions between public utilities, is set forth at R. C. Chapter 4905. For example, R.C. Section 4905.40 governs the issuance of stocks, bonds and notes, R.C. Section 4905.48 governs transactions between public utilities, Section R.C. 4905.49 pertains to mergers between telephone companies "doing business within the state, or partly within and partly without the state." None of these statutes is applicable to transfers of ownership between the parent companies of water public utilities operating in Ohio.

12. In the case of *International Telephone & Telegraph Corp. v. Pub. Util. Comm.*, 18 Ohio St. 2d. 83, 47 Ohio Op. 2d. 235 (1969), the Ohio Supreme Court held that R.C. Sections

4905.40 and 4905.49 did not apply to an application for approval of a transaction between a telephone company operating in Ohio and public utility holding company whereby the telephone company would become the wholly owned subsidiary of the holding company. The court determined that the application for approval did not fit within the statutory framework of either R.C. Section 4905.40 or R.C. Section 4905.49, and stated that “[I]t seems logical to hold, as we do today, that a company cannot require the Commission to consider an application which patently fails to meet with statutory conditions.” (47 Ohio Ops. at 236)

13. Subsequent to the determination of the Ohio Supreme Court in *International Telephone & Telegraph v. Pub. Util. Comm.*, *supra*, R.C. Section 4905.402 was enacted, giving the Commission specific jurisdiction over transfers of control of domestic telephone companies. More recently, this statute was amended by Section 22 of Amended Substitute Senate Bill No. 3 to apply to electric company merger applications filed with the FERC after January 1, 2001.

The fact that R.C. 4905.402 applies only to merger actions between holding companies of electric and telephone companies clearly demonstrates that a merger transaction between parent companies or holding companies of water utilities in Ohio are not within the jurisdiction of the PUCO. The Ohio Supreme Court has a long line of cases holding that the Commission, as a creature of statute, only has that authority conferred upon it by statute. Had the Commission, prior to enactment of the amendment to R. C. 4905.402, possessed general authority over holding company level transactions, the recent amendment to R.C. 4905.402 would have been a meaningless act. Statutory interpretations that render legislative acts pointless are not favored by the Ohio Supreme Court. Thus, the recent amendment to R.C. 4905.402 underscores the operation of the black letter rule of statutory construction, *expressio unius est exclusio alterius*: the fact that the legislature gave the Commission authority over

holding company activities for electric utilities in addition to telephone utilities demonstrates that the Commission lacks such authority over other utilities. *E.g., Smith v. Friendship Village of Dublin, Ohio*, 92 Ohio St. 3d, 503, 506-507 (2001); *see, also, Ohio Edison Company v. Pub. Util. Comm.*, 78 Ohio St. 3d, 466, 474 (1997) (Moyer, C.J., dissenting).

14. In accordance with the holding of *International Telephone & Telegraph v. Pub. Util. Comm.*, *supra*, and in the absence of a specific statute vesting jurisdiction in the Commission over transactions involving the holding companies of domestic waterworks companies, it is clear that the Ohio statutory framework does not contemplate the filing of an application for approval of the transaction described in this Notice. Therefore, Ohio-American and Thames Water seek a declaration by the Commission that approval of the transfer of ownership of AWW is not required.

CONTACTS AND COMMUNICATIONS

15. All correspondence and communications with respect to this notice and request for declaration shall be addressed to:

On behalf of Thames Holdings and RWE:

Judith B. Sanders, Esq.
Bell, Royer & Sanders Co., LPA
33 South Grant Avenue
Columbus, Ohio 43215
(614) 228-0704

On behalf of Ohio-American and AWW:

Sally W. Bloomfield, Esq.
Thomas J. O'Brien
Bricker & Eckler, LLP
100 South Third Street
Columbus, Ohio 43215
(614) 227-2368; 227-2335

WHEREFORE, parties respectfully request:

A. That the Commission issue a declaration that the transfer of ownership of AWW to Thames Holdings, and similar transactions involving holding companies that own waterworks companies doing business in Ohio, does not require regulatory approval; or

B. Should the Commission determine that its regulatory jurisdiction extends to the transaction described in this Notice, that the Commission find that the proposed transfer of ownership is in the public interest and expeditiously issue a finding authorizing Thames Holdings, RWE and any other entity owned or controlled, directly or indirectly, by Thames Holdings and managed by Thames, to acquire control of Ohio-American and AWW.

Respectfully submitted,

Judith B. Sanders, Esq.
Bell, Royer & Sanders Co., LPA
33 South Grant Avenue
Columbus, Ohio 43215
(614) 228-0704

**ATTORNEYS FOR THAMES WATER
AQUA HOLDINGS GmbH/RWE**

Sally W. Bloomfield
Thomas J. O'Brien
Bricker & Eckler, LLP
100 South Third Street
Columbus, Ohio 43215
(614)227-2368

**ATTORNEYS FOR OHIO-AMERICAN
WATER COMPANY, INC.**

RWE- CORPORATE PROFILE

RWE, Germany's fifth largest industrial group, is a leading international multi-utility provider with core businesses in electricity, water, gas and waste management and utility-related services. Essen, Germany-based RWEGroup has 12 major operating subsidiaries.

Within its core businesses, RWE today ranks:

- Electricity -- No. 1 in Germany, No. 3 in Europe.
- Water services -- No. 3 worldwide.
- Gas -- No. 2 in Germany
- Waste-management services -- No.1 in Germany, No.3 in Europe.

The Group ranks No. 1 in Germany and among the top 5 in Europe in utility-related services. RWE is also a leading trader of energy commodities, ranking it among the top three in Europe.

In the financial year 2000/2001 ended June 30, 2001, the Group's 170,000 employees worldwide generated sales of \$57 billion (63 billion Euros). Group EBITDA was approx. \$6 billion (6.6 billion Euros) and net income was approx. \$1.2 billion (1.3 billion Euros).

Selected Key Highlights of Groupwide Business Operations:

- Operates the most dense and extensive private power grid in Europe, with a length of 355,000 kilometers (approximately 222,000 miles).
- Generates more than 270 billion kilowatt hours of electricity annually for more than 8.9 million private and industrial customers and over 200 municipal power suppliers.
- In physical and financial power trading, generates volume of more than 300 Terawatt hours; the only German trader to deal in all energy commodities (electricity, coal, gas and oil)
- Sells approx. 220 billion kWh of natural gas annually.
- Full-service waste management company, serving more than 23 million customers (residential consumers and municipalities) and over 220,000 industrial customers in Germany alone
- Produces over 100 million tons of run-of-mine lignite per year, ranking the company as the largest lignite producer in the world.
- Manages in excess of 12 million tons of waste per year in Germany alone.
- Has launched the first powerline Internet access application in Germany, offering customers speeds up to 2 megabits per second
- Leading promoter of renewable energy (fuel cell technology as well as wind-, solar- and biomass-generated energy)
- Together with SiemensWestinghouse, has launched the first pilot plant for fuel cell system technology

CORE

BUSINESS

STRENGTHS

- Responsible action in offering customers and communities utility services worldwide
- Research and development of innovative technologies, products and services
 - Investing in growth areas nationally and internationally
- Complete unbundling of power production chain in the electricity division
- Balanced utility portfolio with long-term growth potential
- Know-how and experience in liberalized utility markets

RWE

Opernplatz 1 • 45128 Essen, Germany

Phone: +49 201 121 00 • Fax: +49 201 121 51 99

www.rwe.com



PROFILE

THAMES WATER - CORPORATE

Thames Water is a global leader in water and wastewater treatment operations, products and services. The company is the **largest water/wastewater utility in the United Kingdom** and the **3rd largest water/wastewater services company in the world**. Thames Water and its international operations provide drinking water and wastewater treatment services to over 43 million people worldwide – including 12 million in and around the City of London. Thames Water operated as a public water authority prior to a successful transition to the private sector in 1989.

Thames Water is owned by the RWE Group, one of the world's largest multi-utility companies with annual revenues of \$48 billion and 172,000 employees.

SELECTED KEY • Global management and operation of over 540 water/wastewater facilities in 44 countries

HIGHLIGHTS OF • Extensive worldwide experience in various types of Public – Private Partnerships, operating

BUSINESS contracts, and concessions, including the *world's largest wastewater treatment plant*

OPERATIONS (Egypt) and the *world's largest privately financed water treatment plant (Turkey)*

and • A specialist contracting business focused on operations and maintenance, rehabilitation

facilities management

- United States and United Kingdom based diversified products companies engaged in water/wastewater process equipment, membrane filtration, advanced separation systems, pipes, valves and fittings

- Award winning centralized 24 Hour Operations/Customer Service Call Center in the United Kingdom handling over 9,000 customer calls each day

- Completed one of the world's largest water main construction projects in the City of London

- A significant and growing presence in the United States and North America

CORE facilities • Comprehensive management and operations of water and wastewater treatment

BUSINESS • Financial and Commercial Business Development

STRENGTHS • Engineering conceptual development and process design

- Research and Development (served as Research Advisor for NASA)
- Innovation in Operations, Engineering and Technology
- Consultancy services, including training

CORPORATE HEADQUARTERS London, England

EMPLOYEES 17,000 (includes RWE Aqua)

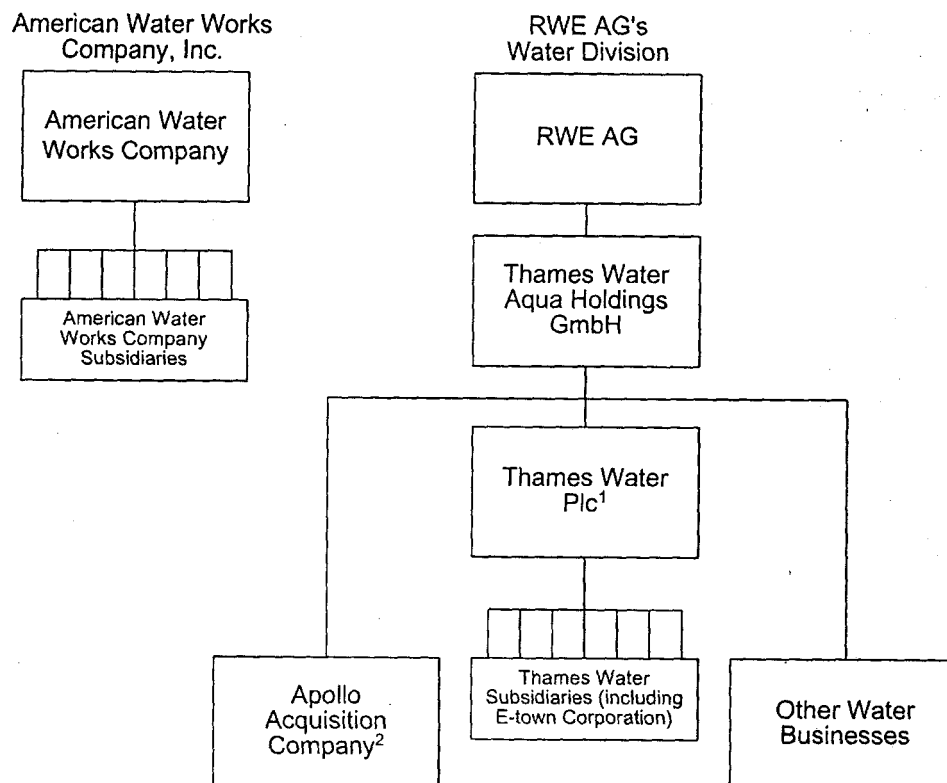
ANNUAL REVENUES \$3 billion (includes RWE Aqua)

AWARDS *ISO 9000, 9001, 9002 & 14001 Accreditations; 10 national awards in the United Kingdom across a broad range of customer care, environment, safety, architecture, and the construction industry, including: the Utility Week Achievement Award; Corporation of London's Considerate Contractor Streetworks Scheme - Gold Award; Index of Corporate Environmental Engagement; UK Government Charter Mark for Customer Service Excellence; Britain's Best Employers Award*

THAMES WATER NORTH AMERICA INC.
Two Stamford Plaza • 281 Tresser Blvd. • Stamford CT. 06901
Phone: 203.355.7400 • Fax: 203.355.7410
www.thames-water.com

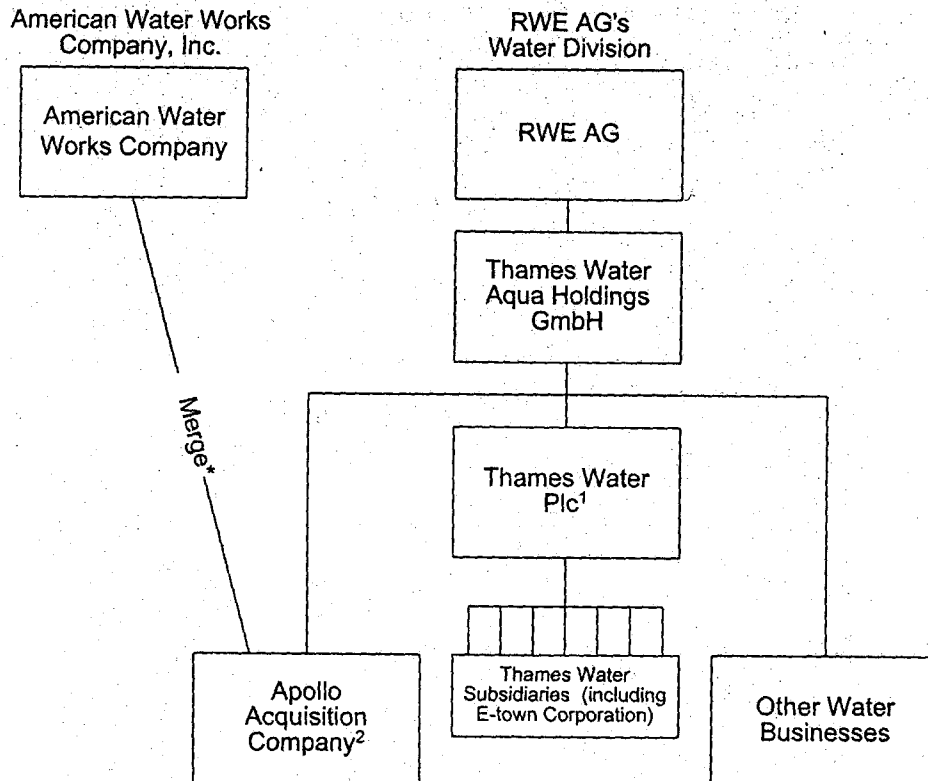
**Diagram of Steps in Thames'/RWE's
Acquisition of American Water
Works Company**

The Present Situation



1. Thames Water Plc operates (through its officers and employees) all of the water business of Thames Water Aqua Holdings GmbH's current and future subsidiaries, including American Water Works Company's utility subsidiaries upon completion of the merger.
2. Owned directly by Thames Water Aqua Holdings GmbH or by an intermediary holding company which will be owned directly by Thames Water Aqua Holdings GmbH.

Merger



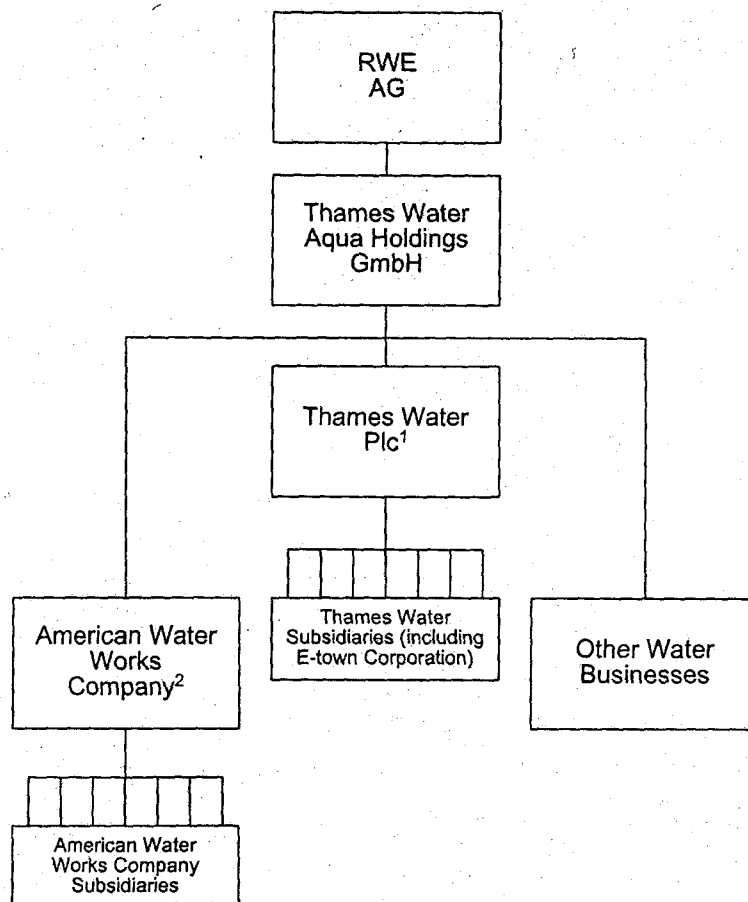
1. Thames Water Plc operates (through its officers and employees) all of the water business of Thames Water Aqua Holdings GmbH's current and future subsidiaries, including American Water Works Company's utility subsidiaries upon completion of the merger.
2. Owned directly by Thames Water Aqua Holdings GmbH or by an intermediary holding company which will be owned directly by Thames Water Aqua Holdings GmbH.

* Apollo acquisition Company merges into American Water Works Company. American

Water Works Company is the surviving corporation. By operation of law, the assets and liabilities of each are combined in the surviving corporation, American Water Works Company. All property is held by American Water Works Company. Each outstanding share of common stock of American Water Works Company is converted into the right to receive the merger consideration, which is \$46 per share in cash.

Post-Merger

RWE AG's Water Division



1. Thames Water Plc operates (through its officers and employees) all of the water business

of Thames Water Aqua Holdings GmbH's current and future subsidiaries, including American Water Works Company's utility subsidiaries upon completion of the merger.

2. Owned directly by Thames Water Aqua Holdings GmbH or by an intermediary holding company which will be owned directly by Thames Water Aqua Holdings GmbH.

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Notice of American)
Water Works Company, Inc. and Thames)
Water Aqua Holdings GmbH of a Transfer of) Case No. 01-3220-WW-UNC
Ownership and Request for Declaration that)
Approval of the Transfer is not Required.)

ENTRY

The Commission finds:

- (1) On December 13, 2001, American Water Works Company, Inc. (AWW) and Thames Water Aqua Holdings GmbH (Thames Holding, collectively the Applicants) filed notice of an Agreement and Plan of Merger. The Applicants request a declaration from the Commission that approval of the transfer of ownership is not required. In the alternative, the Applicants request approval of the transaction on an expeditious basis. The Applicants state that AWW, located in Voorhees, New Jersey, provides water and wastewater services in 28 states and Canada. AWW is the parent corporation of Ohio-American, an Ohio public utility that operates water systems. Thames Holding, whose business office is located in Voorhees, New Jersey, is a company organized under the laws of the Federal Republic of Germany.
- (2) Under the terms of the transaction, AWW will become a wholly owned subsidiary of Thames Holding. Ohio-American will continue to be a subsidiary of AWW and be subject to the regulation of this Commission.
- (3) The Applicants aver that this transaction will not change the operations of Ohio-American, that Ohio-American will operate under its existing tariffs and rate structures. The Applicants offer that there are no contemplated changes to Ohio-American's balance sheet, staffing, or debt structure.
- (4) The Commission has been granted specific authority in regard to merger transactions between holding companies of electric and telephone companies in Section 4905.402 Revised Code. There has been no similar grant of statutory authority in regard to water companies. In fact, prior to the enactment of Section 4905.402, Revised Code, the Ohio Supreme Court found that the Commission did not have the authority to require approval of a merger between a telephone company operating in Ohio and a public utility holding company, where the telephone company was to become a wholly owned subsidiary of the

holding company, *International Telephone & Telegraph Corp. v. Pub. Util. Comm.* 18 Ohio St. 2d. 83 (1969). We agree with the Applicants that the Ohio statutory framework does not contemplate the filing of an application for approval of a merger transaction involving the holding company of an Ohio regulated water company.

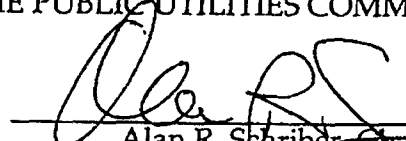
- (5) We find that approval by this Commission of the transfer of ownership of AWW is not required.

It is, therefore,

ORDERED, That approval by this Commission of the transfer of ownership of American Water Works Company, Inc. is not required. It is, further,

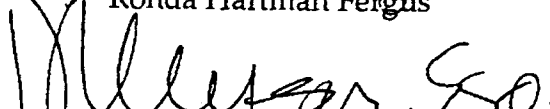
ORDERED, That a copy of this Entry be served upon all parties of record.

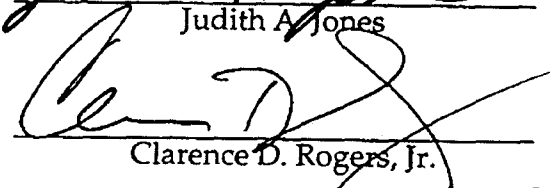
THE PUBLIC UTILITIES COMMISSION OF OHIO


Alan R. Schreiber, Chairman


Ronda Hartman Fergus


Judith A. Jones


Donald L. Mason


Clarence D. Rogers, Jr.

SDL;geb

Entered in the Journal

JAN 24 2002

A True Copy


Gary E. Vigorito
Secretary

PENNSYLVANIA

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In the Matter of the Joint Application of :
Pennsylvania-American Water Company :
And Thames Water Aqua Holdings GmbH : Docket No. _____
For All Approvals Required Under the :
Public Utility Code In Connection with a :
Change in Control of Pennsylvania- :
American Water Company :

JOINT APPLICATION

To the Honorable Commissioners of
The Pennsylvania Public Utility Commission:

Introduction

Applicant Pennsylvania-American Water Company ("PAWC"), on behalf of itself and its parent holding company American Water Works Company, Inc. ("American"), and Applicant Thames Water Aqua Holdings GmbH ("Thames Holdings"), on behalf of itself and its parent holding company RWE Aktiengesellschaft ("RWE"), by way of this Application filed pursuant to Section 1102 of the Public Utility Code, 66 Pa.C.S. § 1102, respectfully request that the Public Utility Commission ("Commission") approve the acquisition of control described herein as contemplated by the

Agreement and Plan of Merger ("Agreement"), dated September 16, 2001, by and among RWE, American, Thames Holdings, and Apollo Acquisition Company ("Acquisition Corp."), a Delaware corporation and wholly owned subsidiary of Thames Holdings created for the purpose of implementing the Agreement.

The Agreement provides, subject to obtaining certain regulatory approvals and other conditions, that Acquisition Corp. shall be merged with and into American, the parent of PAWC. American shall be the surviving corporation and shall continue its corporate existence under Delaware law. A copy of the Agreement is attached as Exhibit A.

The Parties

1. Applicant PAWC, a corporation of the Commonwealth of Pennsylvania, with its principal office located at 800 West Hersheypark Drive, Hershey, PA 17033-0888, is a regulated utility organized and operating under the laws of the Commonwealth of Pennsylvania. PAWC supplies water service to approximately 568,000 customers and wastewater service to 11,000 customers in 317 municipalities encompassing 33 counties throughout the Commonwealth.

2. American, a corporation of the State of Delaware, with its principal offices located at 1025 Laurel Oak Road, Voorhees, New Jersey

08043, is a publicly traded water services company, organized and operating under the laws of the State of Delaware.

3. PAWC and American are represented by:

Thomas P. Gadsden, Esq.
Morgan, Lewis & Bockius
1701 Market Street
Philadelphia, PA 19103
(215) 963-5234

4. Applicant Thames Holdings, with its local office to be located at 1101 Laurel Oak Road, Voorhees, NJ 08043, is a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of RWE, a company organized under the laws of the Federal Republic of Germany, with its principal offices located at Opernplatz 1, 45128 Essen, Germany. A description of RWE is attached as Exhibit B.

5. Thames Water PLC ("Thames") is a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom. Thames operates the water business of Thames Holdings bringing to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to over 43 million people throughout the United Kingdom, Australia, China,

Indonesia, Malaysia, Puerto Rico, Turkey and other countries. A description of Thames is attached as Exhibit C.

6. Thames Holdings, Thames and RWE are represented by:

John J. Gallagher, Esq.
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
200 North Third Street, Suite 300
Harrisburg, PA 17108-2105
(717) 232-8199

The Agreement

7. As noted previously, under the terms of the Agreement, American will become a wholly owned subsidiary of Thames Holdings, which, in turn, is a wholly owned subsidiary of RWE.

8. PAWC will continue to be a wholly owned subsidiary of American and will continue to exist as a Pennsylvania public utility corporation subject to the jurisdiction and regulation of the Commission.

9. The Agreement provides that each issued and outstanding share of Common Stock, par value \$1.25 per share, of American ("American Common Stock") not owned by Thames Holdings, Acquisition Corp. or American, other than shares owned by any holder who invokes appraisal rights under Delaware law, shall be converted into the right to receive cash in consideration of \$46.00 per share.

10. As of September 30, 2001, the authorized capital stock of American consisted of (i) 300 million shares of American Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"), (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"), and (iv) 3 million shares of Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

11. As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding shares held by American as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The Agreement requires American to redeem, prior to the closing of the transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of the Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the closing of the transaction, each share of American Common Stock owned by Thames Holdings, Acquisition Corp. or American shall automatically be cancelled and cease to exist and no consideration shall be delivered in exchange therefor.

12. In furtherance of the Agreement, RWE will cause Thames Holdings to have funds sufficient to consummate the transaction.

13. The Agreement is conditioned upon, among other things, obtaining (a) necessary regulatory approvals, including the approval of the Commission, and (b) the approval of American's shareholders.

Affirmative Public Benefits

14. This Application is being filed pursuant to Section 1102 of the Public Utility Code, 66 Pa.C.S. § 1102.

15. In considering a request for approval pursuant to the above-cited provision of the Public Utility Code, the Commission is required to find that the proposed transaction would affirmatively benefit the public. City of York v. Pa. PUC, 295 A.2d 825 (Pa. Sup. Ct. 1972).

16. The transaction will not result in any change in the existing rates for PAWC. PAWC will continue to operate under its existing tariffs and rate structures until the Commission approves changes to the same.

17. The transaction will not cause any changes in the balance sheet or financial position of PAWC. None of the outstanding debt, owed and recorded as liabilities on the books of PAWC, will be affected by the

Agreement. All of that outstanding debt will continue to be liabilities and obligations of PAWC.

18. The transaction contemplated by the Agreement will not have a detrimental impact on the employees of PAWC. No changes in local staffing or compensation are anticipated at the present time as a result of the transaction. The transaction will not cause employee benefits to be diminished. In fact, no changes in day-to-day operations and management of PAWC are anticipated as a result of this transaction.

19. PAWC will continue to provide safe, adequate and reliable service in fulfillment of its obligations under the Public Utility Code. As noted above, Thames Holdings intends to rely on incumbent local management and consequently the day-to-day operations of PAWC will continue in the same manner as today with no adverse impact on customer service. As more particularly described below, the merged entity, by virtue of its greater resources, will be better positioned to meet future demands and to ensure that high quality service is maintained.

20. PAWC will continue to adhere to its tariffs and to honor all its customer and regulatory obligations. All affiliated interest agreements approved by the Commission to which PAWC is a party will remain in effect unless or until the Commission approves amended agreements.

21. The proposed change in control is in the public interest and fully satisfies the applicable legal standards under Section 1103 of the Code. Indeed, as discussed below, the association of American and Thames Holdings will benefit the customers, employees and shareholders of PAWC and will promote the public interest by combining resources and expertise that will, among other things, create opportunities for sharing best operating practices, increase access to capital markets, increase opportunities for growth in the water and wastewater market and enhance research and development:

A. Size And Financing Capability. The need to comply with increasingly stringent water quality and environmental standards, while also rehabilitating and replacing aging water infrastructure, has created substantial demands for capital investment by water utilities. Although the American System has been extremely successful in raising needed funds, the financial resources and backing of RWE/Thames Holdings will enhance PAWC's access to the capital markets. Indeed, when Thames Holdings acquired New Jersey's E-Town Corporation in 2000, E-Town's senior securities were promptly upgraded. More recently, with RWE's support, PAWC's financing affiliate, the American Water Capital Corporation, was

able to issue long-term debt that resulted in a reduction in PAWC's pending rate request at Docket No. R-00016339.

B. Best Practices. The proposed merger of American and Thames will strengthen PAWC's ability to continue to provide its customers with safe, efficient and reliable water service. For example, PAWC will benefit from Thames' vast experience and expertise in the planning, procurement and delivery of capital projects. Notably in this regard, Thames has implemented a number of innovative partnering techniques with its suppliers/contractors, including the use of incentives and computer modeling methods, that allow it to accurately target and maximize capital benefits while minimizing the cost to customers. In addition, the sharing of best practices may facilitate the development of new systems and processes in the future.

C. Research And Development. American is a recognized leader in the identification and detection of pathogenic organisms, cryptosporidium being a prime example. Thames, in turn, enjoys a comparable reputation in the areas of water quality monitoring and treatment. Thames also is at the cutting edge in terms of burst pipe prediction and trenchless technologies (e.g., the relining, as opposed to physical replacement, of distribution mains), as well as the efficient use and reuse of water. The marriage of

American's and Thames' research and development capabilities will benefit the customers of both companies.

D. Facility Security. American and Thames share a common commitment to the protection of the nation's vital infrastructure. The tragic events of September 11, 2001 certainly brought the issue into even sharper focus and various initiatives have been launched throughout the American System to ensure that this challenge is met. Thames can provide invaluable advice and assistance on security-related matters because Thames, for many years, has had to deal with the very real threat of terrorist attacks on its facilities in the United Kingdom and other countries throughout the world.

E. Opportunities For Employees. The proposed merger offers expanded opportunities to PAWC employees for career advancement and professional growth. Like American, Thames firmly believes in equipping its employees with the skills and tools needed to perform at the highest possible level and, to that end, spends approximately \$6 million a year on training alone. PAWC employees will benefit from access to Thames' innovative training programs and the potential for international assignments. These enhanced opportunities, in turn, will benefit PAWC in its ongoing efforts to recruit, develop and maintain a skilled workforce.

F. Community Outreach. Thames shares American's long-standing commitment to community service and not only encourages its employees to become involved in their local communities, but matches their charitable giving through a corporate payroll program called "Give as you Earn." Thames also supports regional water supply solutions and PAWC's efforts to address the problems faced by smaller systems that may lack the financial and/or technical resources required to comply with evolving water quality standards.

22. The transaction will cause no changes in the existing management and officers of PAWC. Thus, PAWC will continue to have proven management experience and capability to provide safe, adequate and proper service to the public.

23. The transaction contemplated by the Agreement will not result in any changes in PAWC policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.

Notice and Communications

24. Notice to be provided by the parties is governed by 52 Pa. Code § 5.14(b)(7). In accordance with that regulation, the Joint Applicants request that, promptly upon its receipt of this Joint Application, the Commission: (1) cause notice to be published in the Pennsylvania Bulletin; and (2) direct the Joint Applicants as to the additional forms of notice, if any, that are required.

25. Contemporaneously with the filing of this Application, copies hereof will be served upon the Commission's Law Bureau and the Office of Trial Staff, the Pennsylvania Office of Consumer Advocate and the Pennsylvania Office of Small Business Advocate.

26. All correspondence and communications related to this proceeding are to be addressed to the following:

On behalf of Thames, Thames Holdings and RWE:

John J. Gallagher, Esq.
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
200 North Third Street, Suite 300
Harrisburg, PA 17108-2105

On behalf of PAWC and American:

Thomas P. Gadsden, Esq.
Morgan, Lewis & Bockius
1701 Market Street
Philadelphia, PA 19103-2921

27. The consummation of the transaction and the benefits to be derived therefrom, as discussed above, will be realized more expeditiously if the Commission considers the matter as quickly as possible. Every effort has been and will be made to provide the Commission with all the information and assurances that it needs to promptly consider the transaction. For these reasons, the Applicants respectfully request that the Commission process this matter and issue the requested relief on an expedited basis.

WHEREFORE, the Joint Applicants respectfully request:

A. That the Commission issue an Order (i) approving the acquisition of control described herein as contemplated by the Agreement and Plan of Merger by and among RWE, American, Thames Holdings, and Acquisition Corp. dated September 16, 2001; and (ii) authorizing Thames Holdings, RWE and any other entity owned or controlled, directly or indirectly, by Thames Holdings and managed by Thames, to acquire control of PAWC and American, pursuant to Section 1102 of the Public Utility Code; and (iii) determining that no further approval of the Commission is required with regard to the Agreement; and

B. That the Commission expedite the processing of this request in order to permit the transaction to proceed as soon as reasonably possible so that the benefits of the transaction which will be achieved by the combining of the best practices of these strong and experienced companies can be realized.

C. That the Commission grant such other and further relief as the Commission may deem appropriate or necessary to effectuate the terms of the Agreement.

Respectfully submitted,

John J. Gallagher, Esq.
Edward G. Lanza, Esq.
LeBoeuf, Lamb, Greene & MacRae
200 North Third Street, Suite 300
Harrisburg, PA 17108
(717) 232-8199

Counsel for Applicants Thames
Holdings, Thames and RWE

Thomas P. Gadsden, Esq.
Anthony DeCusatis, Esq.
Morgan, Lewis & Bockius
1701 Market Street
Philadelphia, PA 19103-2921
(215) 963-5000

Counsel for Applicants PAWC and
American

Date: December 14, 2001

VIRGINIA

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION**

Joint Petition of

AMERICAN WATER WORKS COMPANY, INC.

And

THAMES WATER AQUA HOLDINGS GmbH

CASE NO. PUA _____

**For approval under the Utility Transfers Act,
Va. Code § 56-88 *et seq.***

JOINT PETITION

American Water Works Company, Inc. ("American") and Thames Water Aqua Holdings GmbH ("Thames Holdings") hereby request approval under Chapter 5 of Title 56 of the Virginia Code (the "Utility Transfers Act", § 56-88 *et seq.*) of the indirect change of control of Virginia-American Water Company, United Water Virginia, Inc., and Bluefield Valley Water Works Company (which are collectively referred to herein as the "American Companies"). The Petitioners request that the State Corporation Commission ("Commission") grant that approval and, in support of this Joint Petition, respectfully state as follows:

**I.
INTRODUCTION**

1. Subject to obtaining certain regulatory approval and other conditions, American, Thames Holdings, RWE Aktiengesellschaft ("RWE"), the parent holding company of Thames Holdings, and Apollo Acquisition Company ("Acquisition Corp."), a subsidiary of Thames Holdings, have entered into an Agreement and Plan of Merger dated September 16, 2001 ("Agreement") which is attached as Exhibit I. The Agreement provides that Acquisition Corp. shall be merged with and into American, the corporate parent or grandparent of each of the American Companies, and that American shall be the surviving corporation.

2. This transaction will result in an indirect change of control of the American Companies that requires approval under Chapter 5 of Title 56 of the Code of Virginia. This transaction will not jeopardize or impair the provision of adequate service to the public at just and reasonable rates by the American Companies. As explained below, it will have the opposite effect in that it will enhance their ability to better serve their customers through the benefits the combination of American with Thames Holdings will produce.

II. THE AMERICAN COMPANIES AND PARTIES TO THE AGREEMENT

3. Virginia-American Water Company ("Virginia-American") is a Virginia public service company and a wholly-owned subsidiary of American. Its principal office is located at 2223 Duke Street, Alexandria, Virginia 22314. Virginia-American provides water service in the City of Alexandria and to the community of Dale City, Virginia. In addition, Virginia-American provides water service to the City of Hopewell, Fort Lee, and a portion of Prince George County.

4. United Water Virginia, Inc. ("United Water Virginia") is a Virginia public service company and a wholly-owned subsidiary of Virginia-American. Its principal office is located at 2223 Duke Street, Alexandria, Virginia 22314. United Water Virginia provides water service in parts of the counties of Westmoreland, Northumberland, Lancaster, King William, and Essex.

5. Bluefield Valley Water Works Company ("Bluefield Valley Water") is a Virginia public service company that provides water service in Bluefield, Virginia. Bluefield Valley Water's office is located at 1600 Pennsylvania Avenue, Charleston, WV 25302. It is a wholly-owned subsidiary of West Virginia-American Water Company, which, in turn, is wholly-owned by American.

6. American is a Delaware corporation, with its principal office located at 1025 Laurel Oak Road, Voorhees, New Jersey 08043. It is the nation's largest investor-owned water utility. American and its subsidiaries have approximately 6,300 employees and provide water, wastewater and other water resources management services to a population of approximately twelve million in 28 states and Canada.

7. Thames Holdings, with its local offices to be located at 1101 Laurel Oak Road, Voorhees, New Jersey, is a company organized under the laws of the Federal Republic of Germany and a wholly-owned subsidiary of RWE. RWE is Germany's fifth largest industrial group and a leading international multi-utility provider with core businesses in electricity, water, gas, waste management and utility-related services. A more complete description of RWE is included in its corporate profile in Exhibit II and in its 2000/2001 Annual Report in Exhibit III.

8. Acquisition Corp. is a Delaware corporation and a wholly-owned subsidiary of Thames Holdings that was created for the purpose of implementing the Agreement.

9. Though not a party to the Agreement, Thames Water Plc ("Thames") is a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom. Thames operates all of the water businesses of Thames Holdings and brings to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to a population of over 43 million worldwide. A description of Thames is attached as Exhibit IV.

III.

THE TRANSACTION

10. Under the terms of the Agreement, American will become a wholly-owned subsidiary of Thames Holdings which, in turn, is a wholly-owned subsidiary of RWE.

11. The Agreement provides that each issued and outstanding share of Common Stock, par value \$1.25 per share, of American ("American Common Stock") not owned by Thames Holdings, Acquisition Corp. or American, other than shares owned by any holder who invokes appraisal rights under Delaware law, shall be converted into the right to receive cash consideration of \$46.00 per share. As of September 30, 2001, the authorized capital stock of American consists of (i) 300,000,000 shares of American Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"), (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"), and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

12. As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding shares held by American as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The Agreement requires American to redeem, prior to the closing of the transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of the Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the closing of the transaction, each share of American Common Stock owned by Thames Holdings, Acquisition Corp. or American shall automatically be cancelled and cease to exist and no consideration shall be delivered in exchange therefor.

13. In furtherance of the Agreement, RWE will cause Thames Holdings to have funds sufficient to consummate the transaction.

14. The Agreement is conditioned upon, among other things, obtaining necessary state public utility regulatory approvals, including the approval of the Commission, and the approval of American's shareholders.

15. After the transaction is completed, Virginia-American will continue to be a wholly-owned subsidiary of American. United Water Virginia will continue to be a wholly-owned subsidiary of Virginia-American and Bluefield Valley Water will continue to be wholly-owned subsidiary of West Virginia-American Water Company. A chart showing the organizational structure before and after the transaction contemplated by the Agreement is attached as Exhibit V. As explained below, the transaction will not alter the daily operations of the American Companies, which will continue to be operated by American and subject to the jurisdiction and regulation of the Commission.

IV.
THE TRANSACTION WILL NOT IMPAIR ADEQUATE
SERVICE AT JUST AND REASONABLE RATES

16. The acquisition of American by Thames Holdings will not jeopardize or impair the American Companies' provision of adequate service to the public at just and reasonable rates. See Va. Code § 56-90. The transaction will not result in any change in rates. The American Companies will continue to operate under their existing tariffs until changed by the Commission and they will fully honor all obligations to customers and to all regulatory authorities. None of the outstanding debt of the American Companies will be affected by the Agreement. The transaction will cause no changes in the balance sheets or financial position of the American Companies.

17. The American Companies will continue to provide safe, adequate and reliable service to their customers. Thames Holdings intends to retain the American Companies' incumbent local management. Consequently, they will continue their current high-quality

service. As more particularly described below, the merged entities, by virtue of their greater resources, will be better positioned to meet future demands and to ensure that high quality service is maintained.

18. The association of American and Thames Holdings will benefit customers by sharing resources and expertise that will create opportunities for sharing best operating practices.

19. The transaction will permit the American Companies to utilize Thames' experience and expertise in safeguarding its water systems. Thames, with water operations around the globe, has considerable experience in operating water facilities and systems in regions where security concerns have been a fact of life for some time. The American Companies, and ultimately their customers, will significantly benefit from the sharing of Thames' extensive experience in developing and implementing comprehensive security measures to protect its customers and employees throughout the world.

20. The need to comply with increasingly stringent water quality and environmental standards, while also rehabilitating and replacing aging water infrastructure, has created substantial demands for capital investment by water utilities. The transaction will enhance the American Companies' ability to raise necessary capital on reasonable terms and to maintain a reasonable capital structure. Although American has been extremely successful in raising needed funds, the financial resources and backing of RWE/Thames will enhance the American Companies' access to capital markets.

21. The association with Thames will further enhance American and its subsidiaries' strong environmental track records. The transaction enhances the American Companies ability to respond to environmental challenges. Backed by RWE's annual research and development budget, Thames is conducting several programs in the area of renewable

energy. Such programs include the use of solar power, fuel cell technology, wind power and local heat and power generating systems, which offer the potential of ameliorating the continuing increase in the cost of electricity used in the distribution and treatment of water. The goal of Thames and American is to facilitate new and expanded environmentally friendly programs that will benefit the American Companies and their customers.

22. The transaction will allow a sharing of research and development between American and Thames. American is recognized as an industry leader in the identification and detection of pathogenic organisms, cryptosporidium being a prime example. Thames enjoys a comparable reputation in the area of water quality monitoring and treatment. The combination of these research and development capabilities offers potential benefits to the customers of the American Companies.

23. The transaction contemplated by the Agreement will have no negative impact on the employees of the American Companies. Indeed, the transaction will benefit the American Companies' employees by providing increased opportunities for training and career development. Like American, Thames firmly believes in equipping its employees with the skills and tools needed to perform at the highest possible level. No overlap exists between Thames' current U.S. operations and the American Companies' operations. The transaction will cause no changes in staffing or compensation and the value of employee benefits will not be diminished. In fact, the day-to-day operations and management of the American Companies are not expected to change as a result of the transaction.

24. The transaction will cause no adverse changes in the American Companies' policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the utility operations.

25. The American Companies will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Virginia public utilities.

26. In addition to enhancing the American Companies' ability to serve, the transaction will also provide benefits to the local communities. American has a long history of service in the communities where it operates. The philosophy of corporate responsibility to the communities served resides at the core of the RWE, Thames, and American cultures, and this philosophy will continue.

V.
NOTICES

27. All correspondence and communications in this proceeding are to be addressed to the following:

On behalf of Thames Holdings:

Donald G. Owens, Esq.
Troutman Sanders Mays & Valentine LLP
1111 East Main Street
Richmond, Virginia 23219
(804) 697-1217

On behalf of American:

Richard D. Gary, Esq.
Hunton & Williams
Riverfront Plaza - East Tower
951 East Byrd Street
Richmond, Virginia 23219
(804) 788-8330

WHEREFORE, the Petitioners respectfully request that the Commission issue an order approving this Joint Petition and granting the approvals required under Chapter 5 of Title 56 of the Code of Virginia for the transaction described herein. They request that such approvals provide for the American stock being acquired as part of the transaction to be held either by

Thames Holding or a company created by Thames Holdings for this purpose. The Petitioners further ask that such approvals be granted as expeditiously as possible.

Respectfully submitted,

AMERICAN WATER WORKS COMPANY, INC.

Vice President
American Water Works Company, Inc.

Secretary
American Water Works Company, Inc.

THAMES WATER AQUA HOLDINGS GmbH

By its Agent and Attorney
Thames Water Aqua Holdings GmbH*

Dated: December __, 2001

* Thomas Water Aqua Holdings GmbH has no President, Vice President, or Secretary.

VERIFICATON

Ellen C. Wolf, being duly sworn according to law, upon his oath, deposes and
says:

1. I am a Vice President of American Water Works Company, Inc. and am
authorized to make this Verification on its behalf.

2. I have read the contents of the foregoing Joint Petition and hereby verify that
the statements therein contained with respect to American Water Works Company, Inc. are true
and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of _____, 2001

Notary Public

VERIFICATION

W. Timothy Pohl, being duly sworn according to law, upon his oath, deposes and says:

1. I am the Secretary of American Water Works Company, Inc. and am authorized to make this Verification on its behalf.

2. I have read the contents of the foregoing Joint Petition and hereby verify that the statements therein contained with respect to American Water Works Company, Inc. are true and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of _____, 2001

Notary Public

VERIFICATION

James McGivern, being duly sworn according to law, upon his oath, deposes and says:

1. I am the Managing Director of the Americas of Thames Water Plc. Thames Water Plc operates all of the water businesses of Thames Water Aqua Holdings GmbH. I have been appointed agent and attorney for Thames Water Aqua Holdings GmbH and authorized by Thames Water Aqua Holdings GmbH to sign on its behalf all petitions in connection with the acquisition of American Water Works Company, Inc. and to make all verifications required in connection with the matters related to the acquisition. Attached herewith is my Power of Attorney issued by Thames Water Aqua Holdings GmbH, and acting pursuant to that authority I am making this Verification on behalf of Thames Water Aqua Holdings GmbH.

2. I have read the contents of the foregoing Joint Petition and hereby verify that the statements therein contained with respect to Thames Water Aqua Holdings GmbH are true and accurate to the best of my knowledge and belief.

Sworn to and subscribed
before me this ____ day
of _____, 2001.

#1013100

Exhibit I

AGREEMENT AND PLAN OF MERGER

RWE- CORPORATE PROFILE

RWE, Germany's fifth largest industrial group, is a leading international multi-utility provider with core businesses in electricity, water, gas and waste management and utility-related services. Essen, Germany-based RWE Group has 12 major operating subsidiaries.

Within its core businesses, RWE today ranks:

- Electricity -- No. 1 in Germany, No. 3 in Europe.
- Water services -- No. 3 worldwide.
- Gas -- No. 2 in Germany.
- Waste-management services -- No. 1 in Germany, No. 3 in Europe.

The Group ranks No. 1 in Germany and among the top 5 in Europe in utility-related services. RWE is also a leading trader of energy commodities, ranking it among the top three in Europe.

In the financial year 2000/2001 ended June 30, 2001, the Group's 170,000 employees worldwide generated sales of \$57 billion (63 billion Euros). Group EBITDA was approx. \$6 billion (6.6 billion Euros) and net income was approx. \$1.2 billion (1.3 billion Euros).

Selected Key Highlights of Groupwide Business Operations:

- Operates the most dense and extensive private power grid in Europe, with a length of 355,000 kilometers (approximately 222,000 miles)
- Generates more than 270 billion kilowatt hours of electricity annually for more than 8.9 million private and industrial customers and over 200 municipal power suppliers
- In physical and financial power trading, generates volume of more than 300 Terawatt hours; the only German trader to deal in all energy commodities (electricity, coal, gas and oil)
- Sells what would be equivalent to approximately 220 billion kWh of natural gas annually

- Full-service waste management company, serving more than 23 million customers (residential consumers and municipalities) and over 220,000 industrial customers in Germany alone
- Produces over 100 million tons of run-of-mine lignite per year, ranking the company as the largest lignite producer in the world
- Manages in excess of 12 million tons of waste per year in Germany alone
- Has launched the first powerline Internet access application in Germany, offering customers speeds up to 2 megabits per second
- Leading promoter of renewable energy (fuel cell technology as well as wind, solar and biomass generated energy)
- Together with Siemens Westinghouse, has launched the first pilot plant for fuel cell system technology

CORE

- Responsible action in offering customers and communities utility services worldwide

BUSINESS

STRENGTHS

- Research and development of innovative technologies, products and services
- Investing in growth areas nationally and internationally
- Complete unbundling of power production chain in the electricity division
- Balanced utility portfolio with long-term growth potential
- Know-how and experience in liberalized utility markets



THAMES WATER - CORPORATE PROFILE

Thames Water is a global leader in water and wastewater treatment operations, products and services. The company is the ***largest water/wastewater utility in the United Kingdom*** and the ***3rd largest water/wastewater services company in the world***. Thames Water and its international operations provide drinking water and wastewater treatment services to over 43 million people worldwide – including 12 million in and around the City of London. Thames Water operated as a public water authority prior to a successful transition to the private sector in 1989.

Thames Water is owned by the RWE Group, one of the world's largest multi-utility companies with annual revenues of \$48 billion and 172,000 employees.

SELECTED KEY

- Global management and operation of over 540

HIGHLIGHTS OF

water/wastewater facilities in 44 countries

BUSINESS

- Extensive worldwide experience in various types of Public –

OPERATIONS

Private Partnerships, operating contracts, and concessions, including the world's largest wastewater treatment plant (Egypt) and the ***world's largest privately financed water treatment plant (Turkey)***

- A specialist contracting business focused on operations and maintenance, rehabilitation and facilities management
- United States and United Kingdom based diversified products companies engaged in water/wastewater process equipment, membrane filtration, advanced separation

systems, pipes, valves and fittings

- Award winning centralized 24 Hour Operations/Customer Service Call Center in the United Kingdom handling over 9,000 customer calls each day
- Completed one of the world's largest water main construction projects in the City of London
- A significant and growing presence in the United States and North America

CORE

BUSINESS

STRENGTHS

- Comprehensive management and operations of water and wastewater treatment facilities
- Financial and commercial business development
- Engineering conceptual development and process design
- Research and development (served as Research Advisor for NASA)
- Innovation in operations, engineering and technology
- Consultancy services, including training
- London, England

CORPORATE HEADQUARTERS

EMPLOYEES

17,000 (includes RWE Aqua)

ANNUAL REVENUES

\$3 billion (includes RWE Aqua)

AWARDS

ISO 9000, 9001, 9002 & 14001 Accreditations; 10 national awards in the United Kingdom across a broad range of customer care, environment, safety, architecture, and the construction

industry, including: the *Utility Week Achievement Award*;
Corporation of London's Considerate Contractor Streetworks
Scheme - Gold Award; *Index of Corporate Environmental*
Engagement; *UK Government Charter Mark for Customer*
Service Excellence; *Britain's Best Employers Award*

ORGANIZATIONAL CHART

DISCLAIMER

This electronic version of an SCC order is for informational purposes only and is not an official document of the Commission. An official copy may be obtained from the Clerk of the Commission, Document Control Center.

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, January 14, 2002

JOINT PETITION OF

AMERICAN WATER WORKS COMPANY, INC.

CASE NO. PUA010082

and

THAMES WATER AQUA HOLDING GMBH

For approval Under The Utility Transfers
Act, § 56-88 et seq. of the Code of
Virginia

ORDER FOR NOTICE AND COMMENT

On December 19, 2001, American Water Works Company, Inc. ("American"), and Thames Water Aqua Holdings GmbH ("Thames Holdings") (collectively, the "Petitioners") filed a joint petition requesting approval, pursuant to § 56-88.1 of the Code of Virginia, for Thames Holdings to acquire control of Virginia-American Water Company, United Water Virginia, Inc., and Bluefield Valley Water Works Company (collectively, the "American Companies").

American, Thames Holdings, RWE Aktiengesellschaft, the parent holding company of Thames Holdings, and Apollo Acquisition Company ("Acquisition Corp."), a subsidiary of Thames Holdings, have entered into an Agreement and Plan of Merger dated September 16, 2001. The Agreement provides that

Acquisition Corp. shall be merged with and into American, the corporate parent or grandparent of each of the American Companies, and that American will be the surviving corporation.

NOW THE COMMISSION, having considered the matter, is of the opinion that public notice should be given, interested persons should be provided with an opportunity to comment and request a hearing, and the Commission Staff should file a report detailing the results of its review of the above-captioned petition.

Accordingly, IT IS ORDERED THAT:

(1) The Petitioners shall promptly make a copy of their joint petition and supporting materials available to the public, who may obtain a copy of the joint petition at no charge, by requesting it in writing from the Petitioners' counsel at the address detailed below.

(2) On or before February 5, 2002, any interested person may file with the Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, an original and fifteen (15) copies of comments on the above-captioned joint petition and shall refer to Case No. PUA010082.

(3) On or before February 5, 2002, any person desiring a hearing in this matter shall file an original and fifteen (15) copies of a request for hearing with the Clerk, State Corporation Commission, c/o Document Control Center, Post Office

Box 2118, Richmond, Virginia 23218, and shall refer in his or her request to Case No. PUA010082. Any request for hearing shall detail the reasons that such issues cannot be adequately addressed in written comments.

(4) A copy of such comments and requests for hearing shall simultaneously be sent to counsel for the Petitioners as follows: Donald G. Owens, Esquire, Troutman Sanders Mays & Valentine LLP, 1111 East Main Street, Richmond, Virginia 23219.

(5) On or before February 5, 2002, any person filing comments or requests for hearing may also file a notice of participation in accordance with Rule 80 B of the Commission's Rules of Practice and Procedure ("Rules"), 5 VAC 5-20-80 B. A copy of any notice of participation must simultaneously be sent to the Petitioners at the address set forth in Ordering Paragraph (4) above.

(6) The Commission Staff shall review the application and shall file, on or before February 14, 2002, an original and fifteen (15) copies of its report detailing the results of its investigation of the matter.

(7) The Petitioners shall respond to written interrogatories within seven (7) calendar days after receipt of the same. Except as modified above, discovery shall be in accordance with Part IV of the Rules.

(8) On or before January 24, 2002, the Petitioners shall publish the following notice as display advertising, not classified, once in newspapers of general circulation in the American Companies' service territories.

NOTICE OF JOINT PETITION OF
AMERICAN WATER WORKS COMPANY, INC.,
AND THAMES WATER AQUA HOLDINGS GmbH
CASE NO. PUA010082

On December 19, 2001, American Water Works Company, Inc. ("American"), and Thames Water Aqua Holdings GmbH ("Thames Holdings") (collectively, the "Petitioners") filed a joint petition requesting approval, pursuant to § 56-88.1 of the Code of Virginia, for Thames Holdings to acquire control of Virginia-American Water Company, United Water Virginia, Inc., and Bluefield Valley Water Works Company (collectively, the "American Companies").

American Thames Holdings, RWE Aktiengesellschaft, the parent holding company of Thames Holdings, and Apollo Acquisition Company ("Acquisition Corp."), a subsidiary of Thames Holdings, have entered into an Agreement and Plan of Merger dated September 16, 2001. The Agreement provides that Acquisition Corp. shall be merged with and into American, the corporate parent or grandparent of each of the American Companies, and that American will be the surviving corporation.

A copy of the above-referenced joint petition is available for inspection during regular business hours at the State Corporation Commission, Document Control Center, First Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia. Interested persons may obtain a copy of the joint petition, at no charge, by requesting a copy in writing from the Petitioners'

counsel at the address noted below: Donald G. Owens, Esquire, Troutman Sanders Mays & Valentine LLP, 1111 East Main Street, Richmond, Virginia 23219.

On or before February 5, 2002, any interested person may file with the Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, an original and fifteen (15) copies of any comments and/or requests for hearing on the above-referenced application. Such comments and requests must refer to Case No. PUA010082. A copy of such comments or request for hearing must simultaneously be sent to Petitioners at the address set forth above.

On or before February 5, 2002, any person filing comments or requests for hearing may also file a notice of participation in accordance with Rule 80 B of the Commission's Rules of Practice and Procedure, 5 VAC 5-20-80 B. A copy of any notice of participation must simultaneously be sent to the Petitioners at the address set forth above.

A copy of the Order for Notice and Comment may be obtained from the Clerk of the Commission. The text of the Order may be viewed at the Commission's website: <http://www.state.va.us/scc/caseinfo/orders.htm>.

AMERICAN WATER WORKS COMPANY, INC., AND THAMES WATER
AQUA HOLDINGS GmbH

(9) The Petitioners shall forthwith serve a copy of this Order on the Chairman of the Board of Supervisors of any county and upon the Mayor or Manager of any county, city, or equivalent officials in counties, towns, and cities having alternate forms of government with the American Companies' service territories.

Service shall be made by first-class mail or delivery to the customary place of business or residence of the person served.

(10) On or before February 5, 2002, the Petitioners shall provide the Commission with proof of notice required in Ordering Paragraphs (8) and (9).

DISCLAIMER

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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, April 4, 2002

JOINT PETITION OF

AMERICAN WATER WORKS COMPANY, INC.,

CASE NO. PUA010082

and

THAMES WATER AQUA HOLDINGS GmbH

For approval under the Utility Transfers Act

ORDER GRANTING APPROVAL

On December 19, 2001, American Water Works Company, Inc. ("American"), and Thames Water Aqua Holdings GmbH ("Thames Holdings") (collectively, "Petitioners") filed a joint petition with the State Corporation Commission ("Commission") requesting approval, pursuant to § 56-88.1 of the Code of Virginia ("Code"), for Thames Holdings to acquire control of Virginia-American Water Company, United Water Virginia, Inc., and Bluefield Valley Water Works Company (collectively, the "American Companies").

Subject to obtaining the necessary regulatory approvals, American, Thames Holdings, RWE Aktiengesellschaft ("RWE"), the parent holding company of Thames Holdings, and Apollo Acquisition Company ("Acquisition Corp."), a subsidiary of Thames Holdings, have entered into an Agreement and Plan of Merger dated September 16, 2001 ("Agreement"). The Agreement provides that Acquisition Corp. will be merged with and into American, the corporate parent or grandparent of each of the American companies, with American as the surviving entity. American will then become a wholly owned subsidiary of Thames Holdings.

Alternatively, American may become a wholly owned subsidiary of a new company created by Thames Holdings for the purpose of holding the American stock that will be acquired pursuant to the Agreement. The proposed transaction, including the alternate proposal, will result in an indirect change of control of the American Companies and requires approval under Chapter 5 of the Code. The Petitioners represent that the transaction will not jeopardize or impair the provision of adequate service to the public at just and reasonable rates.

The American Companies and Parties to the Agreement

Virginia-American Water Company ("Virginia-American") is a Virginia public service company and a wholly owned subsidiary of American. Its principal office is located in Alexandria, Virginia. Virginia-American provides water service in the City of Alexandria, the community of Dale City, the City of Hopewell, Fort Lee, and a portion of Prince George County, Virginia.

United Water Virginia, Inc. ("United Water Virginia"), is a Virginia public service company with principal offices in Alexandria, Virginia, and is a wholly owned subsidiary of Virginia-American, which is wholly owned by American. United Water Virginia provides water service in parts of the counties of Westmoreland, Northumberland, Lancaster, Essex, and King William, Virginia.

Bluefield Valley Water Works Company ("Bluefield Valley Water") is a Virginia public service company that provides water service in Bluefield, Virginia. Its office is located in Charleston, West Virginia, and it is a wholly owned subsidiary of West Virginia-American Water Company, which, in turn, is wholly owned by American.

American is a Delaware corporation located in Voorhees, New Jersey. As stated in the joint petition, American and its subsidiaries have approximately 6,300 employees and provide

water, wastewater, and other water resources management services to a population of approximately twelve million in 28 states and Canada.

Thames Holdings, with its local offices in Voorhees, New Jersey, is a company organized under the laws of the Federal Republic of Germany and is a wholly owned subsidiary of RWE.

As stated in the joint petition, RWE is Germany's fifth largest industrial group and a leading international multi-utility provider with core businesses in electricity, water, gas, waste management, and utility-related services.

Acquisition Corp. is a Delaware corporation and a wholly owned subsidiary of Thames Holdings created for the purpose of implementing the Agreement.

Thames Water plc ("Thames"), though not a party to the Agreement, is a wholly owned subsidiary of Thames Holdings and is a public limited corporation organized under the laws of England and Wales with its principal office located in London, United Kingdom. As stated in the joint petition, Thames operates all of the water businesses of Thames Holdings and brings to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to over 43 million people worldwide.

The Commission issued its Order for Notice and Comment on January 14, 2002. Counsel for Petitioners filed Proof of Notice on February 5, 2002.

On February 4, 2002, Loren D. Mellendorf ("Mr. Mellendorf") filed comments wherein he expressed concern over yet another natural resource being controlled by a foreign entity. On February 5, 2002, the Hopewell Committee for Fair Water Rates ("the Committee"), through counsel, filed Comments, Request for Hearing, and Notice of Participation. In its comments, the Committee expressed concern that the change in management and control might impact service

quality and rate issues for customers of Virginia-American. The Committee also requested a hearing.

On February 11, 2002, The Town of Bluefield ("Bluefield"), through counsel, filed comments and requested a hearing (if necessary). Bluefield also filed a notice of participation. Bluefield's comments relate to its need to resolve an existing matter concerning designation of service areas for Bluefield and Bluefield Water and the need for a franchise agreement between Bluefield and Bluefield Water for the operation of the Bluefield water utility in the Town of Bluefield.

The Transaction

Under the terms of the Agreement, American will become a wholly owned subsidiary of Thames Holdings, which, in turn, is a wholly owned subsidiary of RWE. Each issued and outstanding share of Common Stock, par value, \$1.25 per share, of American ("American Common Stock") not owned by Thames Holdings, Acquisition Corp., or American, other than shares owned by any holder who invokes appraisal rights under Delaware law, will be converted into the right to receive cash consideration of \$46.00 per share. As of September 30, 2001, the authorized capital stock of American consists of (1) 300,000,000 shares of American Common Stock; (2) 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"); (3) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"); and (4) 3,000,000 shares of Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

As of September 30, 2001, 99,971,542 shares of American Common Stock, excluding shares held by American as treasury shares, 101,777 shares of Preferred Stock, 365,158 shares of Preference Stock, and no shares of Preferential Stock were issued and outstanding. The

Agreement requires American to redeem, prior to the closing of the transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement further provides that, at the time of closing, each share of the American Common Stock owned by Thames Holdings, Acquisition Corp., or American will automatically be cancelled and cease to exist, and no consideration will be delivered in exchange for such shares. RWE will cause Thames Holdings to have sufficient funds to consummate the transaction. The total value of the transaction is about \$7.6 billion.

The Petitioners state that, after the transaction is completed, Virginia-American will continue to be owned by American, United Water Virginia will continue to be wholly owned by Virginia-American, and Bluefield Valley Water will continue to be a wholly owned subsidiary of West Virginia-American Water Company. The Petitioners represent that the transaction will not alter the daily operations of the American Companies, which will continue to be operated by American and subject to the jurisdiction and regulation of the Commission

On March 1, 2002, the Committee filed a Motion to Withdraw Comments and Request for Hearing ("Motion") and a Notice of Settlement ("Notice"). In the Motion and Notice, the Committee states that the Committee and the Petitioners state that they have reached a settlement agreement whereby the proposed transaction will not result in an acquisition adjustment for the customers of Virginia-American and will not affect certain agreements between Virginia-American and the Committee concerning non-potable service.

Bluefield filed follow-up comments on March 14, 2002, wherein it stated that Bluefield agreed with the representatives of American that if they could work out matters discussed in its

original comments, Bluefield would withdraw its protest. Bluefield filed no further comments. It has not withdrawn its protest and has not requested a hearing.

With respect to Mr. Mellendorf's concerns relating to the trend toward foreign ownership of United States entities, the Petitioners state that the local utilities will continue to operate under their existing tariffs until changed by the Commission. The Petitioners state that the American Companies will fully honor all obligations to customers and all regulatory authorities and that the transfer will not affect the outstanding debt of the American Companies. Moreover, there will be no changes in the American Companies' balance sheet or financial position.

On March 14, 2002, Staff filed its Report. In its Report, Staff noted a concern with the trend toward multiple layers of ownership of local utility companies, both domestic and foreign. Staff questioned whether decisions made at higher levels above the local utility genuinely consider local customers' best interests. Staff noted that the Petitioners represent that nothing will change at the local level and that customers' service and rates will not be adversely affected. Staff stated that, after such transactions take place, it is quite possible that decisions regarding the local utility that were once made at a local level or by a direct parent will then be made at higher levels. Staff noted that such decisions are not necessarily detrimental to the Virginia utility customer. However, Staff stated that, once approval is granted, changes in the level of decision making may be difficult, if not impossible, to track and monitor. Staff indicated that one way of tracking or monitoring such action is through the review and prior approval requirement for affiliate transactions. Staff noted, however, that Bluefield Valley Water is not subject to the Affiliates Act pursuant to § 56-265.13:7 of the Code.

Regarding Bluefield's protest, Staff believes that while issues addressed by Bluefield need to be resolved, resolution of such issues is not necessary within the context of this

proceeding.¹ With respect to the concerns raised by Mr. Mellendorf, while they may have some validity, monitoring what happens on the local company level can be accomplished through review and prior approval of affiliate transactions, monitoring complaints, and periodic audits conducted at the local level. Staff also stated in its Report that it does not appear that the American Companies will face higher capital costs as a result of the acquisition.

Staff found no indication that the proposed transaction would impair or jeopardize the provision of adequate service at just and reasonable rates and, therefore, recommended approval of the proposed transaction. To the contrary, Staff concluded that there appear to be some very good benefits. These include the financial backing of a large company such as RWE and the security concerns that have been experienced by RWE and Thames that perhaps American and the American Companies have not experienced and do not have the knowledge and resources to address such concerns to the extent that RWE and Thames have addressed. Thames and RWE appear to have strong financial statements, and there is no indication that there are any financial problems that could filter down to the American Companies. Staff also recommended that a report be submitted to the Commission's Director of Public Utility Accounting within 30 days of closing on the transaction providing certain details on the transaction as described herein. Staff recommended that Petitioners be required to track costs and savings associated with the merger and identify and quantify any portion of such costs and savings attributable to the American Companies' Virginia jurisdiction. Staff did not believe a hearing was necessary in this case.

On March 18, 2002, Petitioners, through counsel, filed comments supporting Staff's recommendations.

¹ Even though the resolution of such issues is not necessary within the context of this proceeding, Staff will monitor the progress in resolving the issues and will provide assistance, if necessary, to Bluefield and Bluefield Water in resolving the issue of the franchise agreement and service territory as addressed by Bluefield.

THE COMMISSION, upon consideration of the joint petition, representations of Petitioners, comments filed, Staff's report, and applicable law, is of the opinion and finds that the above-described transfer of control will neither impair nor jeopardize the provision of adequate service to the public at just and reasonable rates and should, therefore, be approved.

Accordingly, IT IS ORDERED THAT:

- 1) Pursuant to §§ 56-88.1 and 56-90 of the Code, American Water Works Company, Inc., and Thames Water Aqua Holdings GmbH are hereby granted approval of the proposed transfer of stock of American to be held either by Thames Holdings or a company created by Thames Holdings for this purpose, such transfer resulting in the indirect transfer of control of Virginia-American, United Water Virginia, and Bluefield Water under the terms and conditions as described herein.
- 2) The approval granted herein shall have no ratemaking implications.
- 3) As required by Chapter 4 of Title 56 of the Code of Virginia ("the Affiliates Act"), Virginia-American and United Water Virginia shall file, pursuant to the Affiliates Act, for approval of any agreements with American and Thames Holdings, as well as any affiliates of American and Thames Holdings.
- 4) The Petitioners shall be required to track costs to achieve the merger as well as savings achieved as a result of the merger and shall identify and quantify any portion of such costs and savings attributable to the American Companies' Virginia jurisdiction. Costs and savings shall be tracked for five years from the date of closing and shall be made available for Staff review.
- 5) The Petitioners shall submit a report of the action taken pursuant to the approval granted herein with the Commission's Director of Public Utility Accounting within

thirty (30) days of such action taken, subject to extension by the Director of Public Utility Accounting. Such report shall include the date the acquisition took place, the total consideration paid, and the name of the entity holding the American stock.

- 6) There appearing nothing further to be done in this matter, it hereby is dismissed.

WEST VIRGINIA

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. _____

WEST VIRGINIA-AMERICAN WATER COMPANY,
a West Virginia corporation, and
THAMES WATER AQUA HOLDINGS GmbH,
a corporation organized under the laws of
the Federal Republic of Germany

Petitioners.

JOINT PETITION FOR THE CONSENT AND APPROVAL OF
THE ACQUISITION OF THE OUTSTANDING COMMON STOCK
OF AMERICAN WATER WORKS COMPANY, INC., THE
PARENT COMPANY AND CONTROLLING SHAREHOLDER
OF WEST VIRGINIA-AMERICAN WATER COMPANY

INTRODUCTION

West Virginia-American Water Company, a West Virginia corporation ("WVAWC"), on behalf of itself and its parent company, American Water Works Company, Inc. ("American Water"), a Delaware corporation, and Thames Water Aqua Holdings GmbH ("Thames Holdings"), on behalf of itself and its parent holding company, RWE Aktiengesellschaft ("RWE"), jointly petition the Public Service Commission of West Virginia ("Commission") for consent and approval under West Virginia Code § 24-2-12(g) of the transaction contemplated in an Agreement and Plan of Merger ("Agreement") dated September 16, 2001, by and among RWE, American Water, Thames Holdings, and Apollo Acquisition Company ("Acquisition Corp."), a Delaware corporation and wholly-owned subsidiary of Thames Holdings created for the purpose of implementing the Agreement. A copy of the Agreement is attached to and incorporated in this Joint Application as Exhibit 1. The Agreement provides that Acquisition Corp. will be merged (the "Merger") with and into American Water, the parent of WVAWC.

American Water will survive the Merger and will continue its corporate existence under Delaware law. Following the Merger, the stock of American Water will be owned by Thames Holdings. In support thereof, Joint Petitioners respectfully state:

THE PARTIES

1. The names and addresses of Joint Petitioners are:
West Virginia-American Water Company
1600 Pennsylvania Avenue
P.O. Box 1906
Charleston, WV 25327; and

Thames Water Aqua Holdings GmbH
1101 Laurel Oak Road
Voorhees, NJ 08043

2. WVAWC is a public utility organized and existing under the laws of the State of West Virginia. WVAWC provides water service to approximately 156,000 residential, commercial, industrial and sale for resale customers in portions of fifteen counties in the State of West Virginia.¹

3. Thames Holdings, with offices to be located at 1101 Laurel Oak Road, Voorhees, New Jersey, is a company organized under the laws of the Federal Republic of Germany and is a wholly-owned subsidiary of RWE, a company organized under the laws of the Federal Republic of Germany. A description of RWE is attached to and incorporated in this Joint Petition as Exhibit 2.

4. American Water, a Delaware corporation, with its principal office located at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, is a publicly-traded water services company operating under the laws of the State of Delaware.

¹WVAWC also owns all of the outstanding common stock of Bluefield Valley Water Works Company, a Virginia corporation and public utility, which serves 127 customers in Bluefield, Virginia.

5. Thames Water PLC ("Thames") is a public limited corporation organized under the laws of England and Wales with its principal office located at 14 Cavendish Place, London, United Kingdom. Thames operates the water division of Thames Holdings and brings to Thames Holdings its extensive experience and expertise as the largest water and wastewater company in the United Kingdom and one of the largest water and wastewater companies in the world, providing water-related services to more than 43 million people throughout the United Kingdom, United States, Australia, China, Indonesia, Malaysia, Puerto Rico, Turkey and other locations throughout the world. A description of Thames is attached to and incorporated in this Joint Application as Exhibit 3.

THE AGREEMENT

6. As a result of the Merger, American Water will become a wholly-owned subsidiary of Thames Holdings which, in turn, is a wholly-owned subsidiary of RWE.

7. Thames, in its own right and as a result of the acquisition of WVAWC through the acquisition of all of the outstanding common stock of American Water ("American Common Stock"), has and will have the requisite managerial experience and personnel to manage and operate WVAWC. WVAWC will continue to be a wholly-owned subsidiary of American Water and will continue to exist and operate as a West Virginia public utility subject to the jurisdiction and regulation of the Commission.

8. The Agreement provides that each issued and outstanding share of common stock, par value \$.25 per share, of American Water ("American Common Stock") not owned by Thames Holdings, Acquisition Corp. or American Water, other than shares

owned by any holder who invokes appraisal rights under Delaware law, shall be converted into the right to receive cash in consideration of \$46.00 per share.

9. As of September 30, 2001, the authorized capital stock of American Water consisted of (i) 300 million shares of American Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value \$25.00 per share (the "Preferred Stock"), (iii) 750,000 shares of Cumulative Preference Stock, par value \$25.00 per share (the "Preference Stock"), and (iv) 3 million shares of Cumulative Preferential Stock, par value \$35.00 per share (the "Preferential Stock").

10. As of September 30, 2001, 99,971,542 shares of American Common Stock (excluding shares held by American Water as treasury shares), 101,777 shares of the Preferred Stock, 365,158 shares of the Preference Stock and no shares of the Preferential Stock were issued and outstanding. The Agreement requires American Water to redeem, prior to the closing of the transaction, each outstanding share of the Preferred Stock at a redemption price of \$25.25 per share, plus full cumulative dividends thereon, and each outstanding share of Preference Stock at a redemption price of \$25.00 per share, plus full cumulative dividends thereon. The Agreement also provides that, at the time of the closing of the transaction, each share of American Common Stock owned by Thames Holdings, Acquisition Corp. or American Water shall automatically be canceled and cease to exist and no consideration shall be delivered in exchange therefor.

11. In furtherance of the Agreement, RWE will cause Thames Holdings to have funds sufficient to consummate the transaction.

12. None of the outstanding debt, owed and recorded as liabilities on the books of WVAWC, will be affected by the transaction. All of that outstanding debt will continue to be liabilities and obligations of WVAWC.

13. The Agreement is conditioned upon, among other things, obtaining (i) necessary regulatory approvals, including the approval of the Commission, and (ii) the approval of American Water's shareholders.

14. The transaction will not have any adverse impact on the existing rates of WVAWC, which will continue to operate under its existing tariffs and rate structures approved from time to time by Commission orders. The transaction will cause no adverse changes in the balance sheet or financial position of WVAWC.

15. WVAWC will continue to provide adequate, economical and reliable service in fulfillment of its utility obligations under West Virginia law. Thames Holdings intends to retain WVAWC's incumbent local management. Consequently, WVAWC will continue its current high-quality service. As more particularly described below, after the transaction, because of enhanced access to capital, WVAWC will be better positioned to meet future demands and to ensure that high quality service is maintained.

16. The terms and conditions of the Agreement and transaction are reasonable. Further, neither of the parties thereto is given an undue advantage over the other, and the transaction involving Thames Holdings and American Water will not adversely affect the public in this State. To the contrary, the association of Thames and American Water will benefit the customers and employees of WVAWC and will promote the public interest by sharing resources and expertise that will create opportunities for sharing best operating practices.

17. The transaction will permit WVAWC to utilize Thames' experience and expertise in safeguarding its water systems. Thames, with water operations around the globe, has considerable experience in operating water facilities and systems in regions where security concerns have been a fact of life for some time. WVAWC, and ultimately its customers, will significantly benefit from the sharing of Thames' extensive experience

in developing and implementing comprehensive security measures to protect its customers and employees throughout the world.

18. The need to comply with increasingly stringent water quality and environmental standards, while also rehabilitating and replacing aging water infrastructure, has created substantial demands for capital investment by water utilities. Although American Water has been successful in raising needed funds, the financial resources and backing of RWE/Thames will enhance WVAWC's access to capital markets. Enhanced access to capital markets at reasonable costs will be a benefit to WVAWC and its customers. Enhanced access to capital will increase WVAWC's ability to acquire additional water systems, replace aging infrastructure, and implement new technology.

19. The association with Thames will further enhance American Water and its subsidiaries' strong environmental track records. The transaction enhances WVAWC's ability to respond to environmental challenges. Backed by RWE's annual research and development budget, Thames is conducting several programs in the area of renewable energy. Such programs include the use of solar power, fuel cell technology, wind power and local heat and power generating systems which offer the potential of ameliorating the continuing increase of the cost of electricity used in the distribution and treatment of water. The goal of Thames and American Water is to facilitate new and expanded environmentally friendly programs that will benefit WVAWC and its customers.

20. The transaction will allow a sharing of research and development between American Water and Thames. American Water is recognized as an industry leader in the identification and detection of pathogenic organisms, cryptosporidium being a prime example. Thames enjoys a comparable reputation in the area of water quality

monitoring and treatment. The combination of these research and development capabilities offers potential benefits to the customers of WVAWC.

21. The transaction contemplated by the Agreement will have no negative impact on the employees of WVAWC. The transaction is predicated on growth through achieving accelerated business development. Further, no overlap exists between Thames' current U.S. operations and WVAWC's operations. The transaction will cause no changes in local staffing or compensation, and the value of employee benefits will not be diminished. In fact, the day-to-day operations and management of WVAWC are not expected to change as a result of this transaction.

22. The transaction will benefit WVAWC's employees by providing increased opportunities for training and career development. Like American Water, Thames firmly believes in equipping its employees with the skills and tools needed to perform at the highest possible level.

23. The transaction will result in no adverse changes in WVAWC's policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.

24. The transaction will not result in the subsidization of non-utility activities by WVAWC or its customers. WVAWC does not engage in a significant level of non-utility activity. To the extent that WVAWC may engage in such activities in the future, it will continue to maintain its books and records in such a manner as to fairly and reasonably allocate costs and facilities between utility and non-utility activities and allow the Commission to identify those that are properly included for ratemaking purposes.

25. The transaction will not impair WVAWC's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure.

26. WVAWC will remain subject to all applicable laws, regulations, rules, isions and policies governing the regulation of public utilities in West Virginia.

27. The transaction contemplated by the Agreement will not adversely impact competition because WVAWC will continue to operate in its current service areas under the same market conditions that currently exist. Because of geographical separation, there is no competition between WVAWC and any present operating company or other entity owned by Thames Holdings. Indeed, Thames Holdings has no West Virginia operations. Furthermore, because the transaction will result in American Water having greater access to capital, American Water and its subsidiaries, including WVAWC, should be able to compete more effectively in the provision of water services to municipalities interested in out-sourcing services to private water companies.

28. American Water and WVAWC have a long history of service in the communities where they operate. The philosophy of corporate responsibility to the communities served resides at the core of the RWE, Thames, and American Water cultures, and this philosophy will continue.

WHEREFORE, the Joint Petitioners respectfully request:

A. That the Commission issue an Order (i) approving the Agreement and Plan of Merger by and among RWE, American Water, Thames Holdings, and Acquisition Corp. dated as of September 16, 2001; and (ii) authorizing Thames Holdings, RWE and any other entity owned or controlled, directly or indirectly, by Thames Holdings and managed by Thames, to acquire the American Common Stock and control of WVAWC pursuant to W. Va. Code § 24-2-12; and (iii) determining that no further approval of the Commission is required with regard to the Agreement or the Merger;

B. That the Commission expedite the processing of this Joint Petition in order to permit the transaction to proceed as soon as reasonably possible given the desire to close the transaction and proceed to achieve the benefits of the transaction which, although not required by law for regulatory approval of such transactions, are likely to be

achieved by the combining of the best practices of these strong and experienced companies; and

C. Such other and further relief as the Commission may deem appropriate or necessary to effectuate the terms of the Agreement.

Respectfully submitted,
WEST VIRGINIA-AMERICAN WATER
COMPANY and THAMES WATER AQUA
HOLDINGS GmbH,

By Counsel

Michael A. Albert, Esq., #92
Christopher L. Callas, Esq., #5991
Jackson & Kelly PLLC
P.O. Box 553
Charleston, WV 25322-0553
Phone (304) 340-1287
Fax (304) 340-1080

Counsel for West Virginia-American Water
Company

James D. Gray, Esq., #1463
Steptoe & Johnson PLLC
Bank One Center, Sixth Floor
P.O. Box 2190
Clarksburg, WV 26302-2190

Counsel for Thames Water Aqua Holdings GmbH

e: December 20, 2001
333.3

STATE OF _____

UNTY OF _____

JAMES McGIVERN, holding a power of attorney in fact for Thames Water Aqua Holdings GmbH, named in the foregoing Joint Petition for Consent and Approval under W.Va. Code §24-2-12, being duly sworn, says that the facts and allegations therein contained, as they pertain to Thames Water Aqua Holdings GmbH are true, except so far as they are therein stated to be on information, and that, so far as they are therein stated to be based on information, he believes them to be true.

James McGivern

Taken, subscribed and sworn to before me this ____ day of December, 2001.

My commission expires _____.

NOTARY PUBLIC

TE OF _____

UNTY OF _____

CHRIS E. JARRETT, President of West Virginia-American Water Company, named in the foregoing Joint Petition for Consent and Approval under W.Va. Code §24-2-12, being duly sworn, says that the facts and allegations therein contained, as they pertain to West Virginia-American Water Company are true, except so far as they are therein stated to be on information, and that, so far as they are therein stated to be based on information, he believes them to be true.

Chris E. Jarrett

Taken, subscribed and sworn to before me this ____ day of December, 2001.

My commission expires _____.

NOTARY PUBLIC

EXHIBIT 1

Agreement and Plan of Merger
Between RWE, American Water, Thames Holdings
and Apollo Acquisition Company

EXHIBIT 2

RWE- CORPORATE PROFILE

, Germany's fifth largest industrial group, is a leading international multi-utility provider with core businesses in electricity, water, gas and waste management and utility-related services. Essen, Germany-based RWEGroup has 12 major operating subsidiaries.

in its core businesses, RWE today ranks:

- Electricity -- No. 1 in Germany, No. 3 in Europe.
- Water services -- No. 3 worldwide.
- Gas -- No. 2 in Germany
- Waste-management services -- No.1 in Germany, No.3 in Europe.

The Group ranks No. 1 in Germany and among the top 5 in Europe in utility-related services. RWE is also a leading trader of energy commodities, ranking it among the top three in Europe.

In the financial year 2000/2001 ended June 30, 2001, the Group's 170,000 employees worldwide generated sales of \$57 billion (63 billion Euros). Group EBITDA was approx. \$6 billion (6.6 billion Euros) and net income was approx. \$1.2 billion (1.3 billion Euros).

Selected Key Highlights of Groupwide Business Operations:

- Operates the most dense and extensive private power grid in Europe, with a length of 355,000 kilometers (approximately 222,000 miles).
- Generates more than 270 billion kilowatt hours of electricity annually for more than 8.9 million private and industrial customers and over 200 municipal power suppliers.
- In physical and financial power trading, generates volume of more than 300 Terawatt hours; the only German trader to deal in all energy commodities (electricity, coal, gas and oil)
- Sells approx. 220 billion kWh of natural gas annually.
- Full-service waste management company, serving more than 23 million customers (residential consumers and municipalities) and over 220,000 industrial customers in Germany alone
- Produces over 100 million tons of run-of-mine lignite per year, ranking the company as the largest lignite producer in the world.
- Manages in excess of 12 million tons of waste per year in Germany alone.
- Has launched the first powerline Internet access application in Germany, offering customers speeds up to 2 megabits per second
- Leading promoter of renewable energy (fuel cell technology as well as wind-, solar- and biomass-generated energy)
- Together with SiemensWestinghouse, has launched the first pilot plant for fuel cell system technology

CORE	□	Responsible action in offering customers and communities utility services worldwide
BUSINESS	□	Research and development of innovative technologies, products and services
STRENGTHS	□	Investing in growth areas nationally and internationally
	□	Complete unbundling of power production chain in the electricity division
	□	Balanced utility portfolio with long-term growth potential

□ Know-how and experience in liberalized utility markets

EXHIBIT 3



THAMES WATER - CORPORATE PROFILE

Thames Water is a global leader in water and wastewater treatment operations, products and services. The company is the **largest water/wastewater utility in the United Kingdom** and the **3rd largest water/wastewater services company in the world**. Thames Water and its international operations provide drinking water and wastewater treatment services to over 43 million people worldwide – including 12 million in and around the City of London. Thames Water operated as a public water authority prior to a successful transition to the private sector in 1989.

Thames Water is owned by the RWE Group, one of the world's largest multi-utility companies with annual revenues of \$48 billion and 172,000 employees.

- | | |
|--|--|
| SELECTED KEY | <ul style="list-style-type: none">□ Global management and operation of over 540 water/wastewater facilities in 44 countries |
| HIGHLIGHTS OF
BUSINESS
OPERATIONS | <ul style="list-style-type: none">□ Extensive worldwide experience in various types of Public – Private Partnerships, operating contracts, and concessions, including the world's largest wastewater treatment plant (Egypt) and the world's largest privately financed water treatment plant (Turkey)□ A specialist contracting business focused on operations and maintenance, rehabilitation and facilities management□ United States and United Kingdom based diversified products companies engaged in water/wastewater process equipment, membrane filtration, advanced separation systems, pipes, valves and fittings□ Award winning centralized 24 Hour Operations/Customer Service Call Center in the United Kingdom handling over 9,000 customer calls each day□ Completed one of the world's largest water main construction projects in the City of London□ A significant and growing presence in the United States and North America |
| CORE
BUSINESS
STRENGTHS | <ul style="list-style-type: none">□ Comprehensive management and operations of water and wastewater treatment facilities□ Financial and Commercial Business Development□ Engineering conceptual development and process design□ Research and Development (served as Research Advisor for NASA)□ Innovation in Operations, Engineering and Technology□ Consultancy services, including training |

**CORPORATE
HEADQUARTERS**

London, England

EMPLOYEES

17,000 (includes RWE Aqua)

**ANNUAL
REVENUES**

\$3 billion (includes RWE Aqua)

EXHIBIT 3 (continued)

AWARDS

ISO 9000, 9001, 9002 & 14001 Accreditations; 10 national awards in the United Kingdom across a broad range of customer care, environment, safety, architecture, and the construction industry, including: the *Utility Week Achievement Award*; *Corporation of London's Considerate Contractor Streetworks Scheme - Gold Award*; *Index of Corporate Environmental Engagement*; *UK Government Charter Mark for Customer Service Excellence*; *Britain's Best Employers Award*

HAWAII

**OSHIMA CHUN
FONG & CHUNG LLP**
A LIMITED LIABILITY LAW PARTNERSHIP

December 11, 2001

Public Utilities Commission
465 South King Street
Honolulu, HI 96813
Attention: Joan Yamaguchi, Esq.

RE: Acquisition of American Water Works Company, Inc.'s ("AWWC") Stock by
RWE AG ("RWE")

Dear Commissioners and Staff:

The purpose of this letter is to confirm my understanding that the Commission's prior approval will not be required for RWE's purchase and acquisition of AWWC's stock.¹ As you know, AWWC is the parent of Hawaii-American Water Company, Inc. ("HAWC"), a public utility operating in the State of Hawaii and regulated by the Commission. As further explained below, my conclusion is based on the following: (1) the subject transaction involving the stock of the parent corporation of a Hawaii public utility (i.e., HAWC) is one step further removed from that previously determined by the Commission in D&O No. 16175 discussed below as not requiring the Commission's prior approval under Hawaii's appurtenant statutes pertaining to stock and other transfers, (2) AWWC is not regulated by the Commission, and (3) after RWE's purchase and acquisition of AWWC's stock, both AWWC and HAWC will remain unchanged as corporate entities, HAWC's operations will not be affected and its existing rates and tariffs will remain in effect until further Commission order.

In connection with the above, enclosed for your reference and information please find the following documents describing the proposed transaction:

1. Agreement and Plan of Merger dated September 16, 2001
2. Press Release dated September 17, 2001 entitled "American Water Works to be Acquired by RWE in \$4.6 Billion Cash Transaction; Compelling Combination of Companies to Produce Powerful New Force in World Water Marketplace"

¹ Under the terms of the purchase and acquisition, each issued and outstanding share of the common stock of AWWC not owned by AWWC, RWE, Thames Holdings (RWE's subsidiary), or any holder that invokes appraisal rights under Delaware law, will be converted into the right to receive \$46.00 per share. For those shares owned by AWWC, RWE and Thames Holdings, these shares will be canceled at the time of closing for no additional consideration. As for AWWC's preferred and preference shares of stock, AWWC must redeem all such shares, including all cumulative dividends, prior to closing.

3. "Fast Facts" providing a chart setting forth general information about the parties involved in the transaction
4. "American Water Works: RWE Acquisition" providing additional general information about the transaction

In Commission Decision and Order No. 16175, filed on January 27, 1998 in Docket No. 97-0339 ("D&O No. 16175"), which involved the sale to AWWC of all of Maunaloa Associates, Inc.'s stock of Commission-regulated HAWC (then known as East Honolulu Community Services, Inc.), the Commission found that none of the specific provisions in the Hawaii Revised Statutes ("HRS") dealing with stock and other transfers (i.e., HRS §§269-17, 17.5, 18 and 19) required Commission approval of AWWC's acquisition of HAWC's stock. In particular, the Commission specifically found that AWWC's acquisition of HAWC's stock did not amount to either a merger or consolidation of public utilities, which would require Commission approval under HRS §269-19.

The subject transaction involves the purchase and acquisition of AWWC's stock by RWE, which is a transaction one step further removed from the acquisition addressed by the Commission in D&O No. 16175. Therefore, we believe that the same statutory analysis used in D&O No. 16175 will apply to the subject transaction, and, as a result, the purchase and acquisition of AWWC's stock by RWE does not require prior Commission approval under HRS §§269-17, 17.5, 18 and 19.

However, we recognize that in D&O No. 16175, the Commission took jurisdiction over AWWC's acquisition of HAWC's stock under its general powers granted pursuant to HRS §269-7(a), which gives the Commission the right to examine "all matters of every nature affecting the relations and transactions between [the public utility] and the public or persons or corporations." Applying these general powers, the Commission required HAWC to obtain the Commission's prior approval.

We now ask for confirmation that the Commission will not invoke its general powers under HRS §269-7(a) to require prior review and approval of RWE's acquisition of AWWC's outstanding common stock.

We believe that such review and approval is not necessary for this transaction based on, among other things:

1. The subject transaction involving the stock of the parent corporation of the Hawaii public utility is one step further removed from that considered in D&O No. 16175;

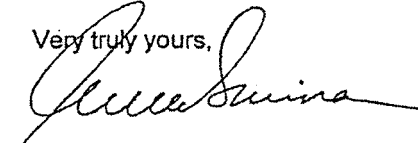
Public Utilities Commission
December 11, 2001
Page 3 of 3

2. AWWC and HAWC (the public utility regulated by the Commission) will both remain unchanged as corporate entities, and HAWC's operations will not be affected and its existing rates and tariffs will remain in effect until further Commission order; and

3. AWWC is not a Commission-regulated entity.

Thank you for your consideration in this matter. Your timely response would be greatly appreciated. If you should have any questions or would like to discuss this matter in greater detail, please do not hesitate to call me at 528-4200.

Very truly yours,



Alan M. Oshima

Enclosures

cc: Lindsey Ingram, Jr., Esq. (w/o encls.)
Consumer Advocate (w/ encls.)

F:\DOCUMENT\AMOU\WW-RWE ACQUISITION\Letter to PUC4 (final).doc

IOWA

DORSEY & WHITNEY LLP

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December 20, 2001

Ms. Judi K. Cooper
Executive Secretary
Iowa State Utilities Board
350 Maple Street
Des Moines, IA 50319-0069

FILED WITH
Executive Secretary

DEC 20 2001

IOWA UTILITIES BOARD

Dear Ms. Cooper:

Re: Acquisition of American Water Works by RWE AG

Dear Ms. Cooper:

The purpose of this correspondence is to advise the Iowa Utilities Board that on September 16, 2001, American Water Works Company, Inc. ("AWW"), the parent of Iowa-American Water Company, a water utility regulated by the Board pursuant to Iowa Code § 476.1, and RWE AG ("RWE"), a leading international provider of electricity, gas, water and wastewater management services, entered into a definitive agreement under which RWE will purchase all the outstanding common shares at a price of \$46 per share in cash.

The proposed transaction has a total value of approximately \$7.6 billion, including the assumption of approximately \$3.0 billion in debt AWW had outstanding as of June 30, 2001.

Upon completion of the transaction, AWW will be operated as a part of the U.S. operations of Thames Water Plc., RWE's London-based international water services business, and all of the stock of AWW will be owned by a wholly-owned subsidiary of RWE. Iowa-American will remain a wholly-owned subsidiary of AWW.

The transaction is expected to take more than a year to complete, following approval by AWW's shareholders and appropriate state regulatory agencies. In this regard, we have reviewed the pertinent provisions of the Iowa Code relating to public utility reorganizations and we believe that the reorganization described herein does not fall within the Board's review authority.

Ms. Judi K. Cooper
December 20, 2001
Page 2

DORSEY & WHITNEY LLP

The Board's reorganization review authority is set forth in the Division of Iowa Code Chapter 476 entitled "Public Utility Affiliates." The definitional section, § 476.72, states as follows: "As used in this *division*, unless the context otherwise requires: ...A. "Public Utility" includes only gas or electric rate-regulated public utilities and rate-regulated telephone utilities providing local telephone exchange telecommunications service." Iowa Code § 476.72(4) (2001) (emphasis supplied). Section 476.72(4) limits the Board's authority to review utility reorganizations to those involving rate-regulated gas or electric utilities and rate-regulated telephone utilities providing local exchange telecommunications service and would not require Board approval of reorganizations involving non-rate regulated electric, gas, or telephone utilities, or water utilities. It thus appears that the AWW-RWE merger is not subject to review by the Board. However, we believe it appropriate to advise you of the pending merger and we request that you confirm your agreement with our conclusion.

Should you have any questions please feel free to contact me.

Very truly yours,



Sheila K. Tipton
Attorney for Iowa-American Water Company

SKT:sab

cc: Mr. Allan Kniep
General Counsel
Iowa Utilities Board
350 Maple
Des Moines, Iowa 50319

Mr. John Perkins
Acting Consumer Advocate
Office of Consumer Advocate
310 Maple
Des Moines, IA 50319

WRITER'S DIRECT DIAL
515/699-3291
WRITER'S E-MAIL
lupton.shel@dorseylaw.com

[date]

Ms. Judi K. Cooper
Acting Executive Secretary
Iowa State Utilities Board
350 Maple Street
Des Moines, IA 50319-0069

Dear Ms. Cooper:

Re:

Dear Ms. Cooper:

The purpose of this correspondence is to advise the Iowa Utilities Board that on September 17, 2001, American Water Works Company, Inc. ("AWW"), the parent of Iowa-American Water Company, a water utility regulated by the Board pursuant to Iowa Code § 476.1, and RWE AG, a leading international provider of electricity, gas, water and wastewater management services, announced that they have entered into a definitive agreement under which RWE will purchase all the outstanding shares of AWW at a price of US \$46 per share in cash.

RWE's proposal represents a premium of 36.5% to the average closing price of American Water shares over the 30 trading days ended September 10, 2001, and a 29.5% premium above the all-time high closing price of \$35.52. The proposed transaction has a total value of approximately US\$7.6 billion, including the assumption of approximately US\$3.0 billion in debt American Water had outstanding as of June 30, 2001.

Upon completion of the transaction, American Water will be combined with the U.S. operations of Thames Water, RWE's London-based international water services business. Iowa-American will remain a wholly-owned subsidiary of AWW.

The transaction is expected to take more than a year to complete, following approval by American Water's shareholders and appropriate state regulatory agencies. In this regard, we have reviewed the pertinent provisions of the Iowa Code relating to public utility reorganizations and we believe that the reorganization described herein does not fall within the Board's review authority.

The Board's reorganization review authority is set forth in the Division of Iowa Code Chapter 476 entitled "Public Utility Affiliates." The definitional section, § 476.72, states as follows: "As used in this *division*, unless the context otherwise requires:4. "*Public Utility*" includes only gas or electric rate-regulated public utilities and rate-regulated telephone utilities providing local telephone exchange telecommunications service." Section 476.72(4) limits the Board's authority to review utility reorganizations to those involving rate-regulated gas or electric utilities and rate-regulated telephone utilities providing local exchange telecommunications service and would not require Board approval of reorganizations involving non-rate regulated electric, gas, or telephone utilities, or water utilities. It thus appears that the American Water Works-RWE merger is not subject to review by the Board.

Should you have any questions please feel free to contact me.

Very truly yours,

Sheila K. Tipton
Attorney for Iowa-American Water Company

SK:sab

Cc: [Mr. Tam Ormiston
Acting Consumer Advocate
or
Mr. John Perkins
Consumer Advocate
Office of Consumer Advocate
350 Maple
Des Moines, IA 50319]

TENNESSEE

BEFORE THE
STATE OF TENNESSEE
REGULATORY AUTHORITY

Petition for Authority to)
Transfer Control of Utilities,) Docket. No. _____
Inc. to Nuon, NV)

To the Regulatory Authority:

PETITION FOR AUTHORITY TO TRANSFER CONTROL

Utilities Inc. ("Transferor") and Nuon NV ("Transferee") by its attorneys, hereby respectfully request that the Tennessee Regulatory Authority ("TRA") immediately approve the transfer of control of Utilities Inc. to Nuon. Utilities Inc. will become a wholly-owned subsidiary of Nuon. The Petitioner requests expedited treatment of this petition in order to permit the consummation of the transaction without undue delay.

Utilities Inc. provides water service to the Chalet Village Subdivision in Sevier County, Tennessee through its wholly-owned operating subsidiary, Tennessee Water Service, Inc. pursuant to a Certificate of Public Convenience and Necessity granted in January, 1984, in Docket No. U-83-7240. Because Tennessee Water Service Inc. ("TWS") will continue to provide service in Tennessee as a wholly-owned subsidiary of Utilities Inc., no transfer of operating authority is sought in connection with this transaction.

THE PARTIES

1. The name, address, and telephone number of the
Transferor is:

Utilities Inc.
2335 Sanders Road
Northbrook, IL 60062-6196
(847) 498-6440

2. The name, address, and telephone number of the proposed
Transferee is:

Nuon, N.V.
Spaklerweg 20
Amsterdam, The Netherlands

3. Questions about this application should be directed to
Edward S. Finley, Jr.:

Edward S. Finley, Jr.
Hunton & Williams
One Hannover Square
421 Fayetteville Street Mall
Suite 1400
Raleigh, NC 27601
(919) 899-3021

TRANSFER OF CONTROL

4. Nuon has reached an agreement with Utilities Inc.
whereby Nuon will acquire all of Utilities Inc.'s outstanding
stock, subject to all necessary regulatory approvals. A copy of
the Agreement will be provided upon request.

5. After the transfer of control, TWS Inc. will continue to
operate as it has in the past, using the same name, tariff and
operating authority. Thus the transfer of control will be

transparent to, and will have no adverse impact upon TWS Inc.'s customers.

QUALIFICATIONS OF TRANSFEREE

6. Nuon is a corporation duly organized and existing under the laws of The Netherlands. Its principal office is located at Spaklerweg 20, Amsterdam, The Netherlands. Nuon is The Netherlands' second largest provider of electric, gas and water utilities services. Nuon develops and markets products and services related to energy and water products. Nuon develops renewable "green" energy projects such as small-scale hydroelectricity, wind and solar technology.

7. Nuon had revenues of more than 3.5 billion Euros in fiscal year 2000. Nuon employs more than 9,000 people.

8. In 1997, Nuon acquired North Coast Energy Inc., a Twinsburg, Ohio based provider of natural gas. In 2000, Nuon and United Kingdom water firm Biwater created international water company Cascad. Also in 2000, Nuon acquired NORIT, one of Europe's leading suppliers of water purification solutions for the food and beverage industry with offices in Marshall, Texas and Pryor, Oklahoma. Nuon also holds an equity stake in Green Mountain Energy, an Austin, Texas based provider of electricity to residential, commercial and industrial customers.

9. Utilities Inc. is a holding company for approximately 80 subsidiary operating companies that provide residential water and/or wastewater services to more than 235,000 customers in 16

states. Utilities Inc., through its operating subsidiary, serves approximately 500 water customers in Tennessee.

10. Under new ownership, TWS Inc. will continue to be led by the same team of well-qualified water service professionals. Information concerning TWS Inc.'s legal, technical, managerial and financial qualifications to provide water services was submitted with its application for certification filed with the TRA and is, therefore, a matter of record with the TRA. In addition, these personnel will be able to draw upon the financial resources of Nuon.

11. Should the merger receive regulatory approval, the companies will continue to maintain Utilities Inc.'s headquarters, corporate staff and administrative facilities in Northbrook, Illinois.

PUBLIC INTEREST

12. Nuon's acquisition of Utilities Inc.'s stock provides Utilities Inc. and its operating subsidiaries with additional financial resources that will enhance the ability of the operating subsidiary in Tennessee to grow and meet its service obligations.

13. The acquisition will not adversely affect the ability of Utilities Inc.'s operating subsidiary in Tennessee to provide water service to its customers.

14. The effect of the acquisition on Utilities Inc.'s financial condition and its ability to thrive in a rapidly

changing and increasingly competitive water and wastewater utility environment will be positive and will benefit the Tennessee consumers.

15. The acquisition of the Utilities Inc. stock by Nuon is justified by the public convenience and necessity.

16. Attached as Exhibit A are balance sheets for Nuon for the last three years.

WHEREFORE, Nuon respectfully requests that the TRA immediately authorize the transfer of control of Utilities Inc. to Nuon so that the transaction may proceed without undue delay.

Respectfully submitted this the 18th day of June, 2001.

Nuon NV

By: Edward S. Finley, Jr.
Edward S. Finley, Jr.
Hunton & Williams
421 Fayetteville Street Mall
Suite 1400
Raleigh, NC 27601

VERIFICATION

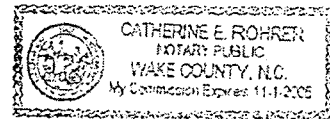
Edward S. Finley, Jr., being duly sworn according to law,
upon his oath deposes and says:

1. I am the local counsel for Utilities Inc. and am
authorized to verify the foregoing application.

2. I have read the foregoing application, and the
statements therein are true of my own knowledge, except to those
matters which are therein stated on information and belief and as
to those matters, I believe them to be true.

Ed S. Finley, Jr.
Edward S. Finley, Jr.

Sworn to and subscribed before me
this 18th day of June, 2001.



Catherine E. Rohrer

Notary Public:
For the County of Wake
State of North Carolina
My Commission Expires:

11-1-2005

BEFORE THE TENNESSEE REGULATORY AUTHORITY AT
NASHVILLE, TENNESSEE

October 11, 2001

IN RE:

PETITION FOR AUTHORITY TO TRANSFER
CONTROL OF UTILITIES, INC. TO NUON, N.V.

DOCKET NO.
01-00543

ORDER APPROVING TRANSFER OF AUTHORITY

This matter came before the Tennessee Regulatory Authority (the "Authority") at the regularly scheduled Authority Conference held on July 10, 2001 for consideration of the Application (the "Application") of Utilities, Inc. ("UI") and Nuon, N.V. ("Nuon") (collectively the "Applicants"), pursuant to the provisions of Tenn. Code Ann. § 65-4-113, for approval of a transfer of authority to provide utility services.

Requirement of and Standards for Authority Approval

Tenn. Code Ann. § 65-4-113 requires a public utility to obtain Authority approval to transfer its authority to provide utility services. Tenn. Code Ann. § 65-4-113(a) provides as follows:

(a) No public utility, as defined in § 65-4-101, shall transfer all or any part of its authority to provide utility services, derived from its certificate of public convenience and necessity issued by the authority, to any individual, partnership, corporation or other entity without first obtaining the approval of the authority.

Tenn. Code Ann. § 65-4-113(b) provides the standards by which the Authority shall consider an application for transfer of authority, in pertinent part, as follows:

(b) Upon petition for approval of the transfer of authority to provide utility services, the authority shall take into consideration all relevant factors, including, but not limited to, the suitability, the financial

responsibility, and capability of the proposed transferee to perform efficiently the utility services to be transferred and the benefit to the consuming public to be gained from the transfer. . . .

The Application

The Application was filed on June 20, 2001. The Applicants request that the Authority approve the transfer of ownership of UI to Nuon and the resulting transfer of authority to provide utility services. The Application states that UI provides water service to the Chalet Village Subdivision in Sevier County, Tennessee, through its wholly-owned operating subsidiary, Tennessee Water Service, Inc. ("TWS"), pursuant to a certificate of public convenience and necessity granted by the Tennessee Public Service Commission in 1984 in Commission Docket No. U-83-7240.

According to the Application, UI is a holding company for approximately eighty (80) subsidiary operating companies that provide residential water or wastewater services to more than 235,000 customers in sixteen (16) states. Through its operating subsidiary, UI serves approximately 500 water customers in Tennessee.

The Application also states that Nuon is a Netherlands corporation with its principal office located in Amsterdam. According to the Application, Nuon is the Netherlands' largest provider of electric, gas, and water utilities services. Nuon develops renewable "green" energy projects such as small-scale hydroelectric, wind, and solar technology. Nuon had revenues of more than 3.5 billion Euros in fiscal year 2000 and employs more than 9,000 people. Nuon has an ownership interest in several providers of utility services, including North Coast Energy, Inc., an Ohio-based provider of natural gas, and Green Mountain Energy, a Texas-based provider of electricity.

The Application states that Nuon has reached an agreement with UI whereby Nuon will acquire all of UI's outstanding stock. The Application further states that after the transfer

of ownership, TWS will continue to operate as it has in the past, using the same name, tariff, and operating authority. According to the Application, the transfer of ownership will be transparent to and have no adverse impact on TWS's customers.

The Application further states that under new ownership, TWS will continue to be led by the same team of well-qualified water service professionals. In addition, the Application states, these persons will be able to draw upon the financial resources of Nuon. The Application states that the proposed transaction is in the public interest because Nuon's purchase of UI will provide UI and its operating subsidiaries with additional financial resources that will enhance the subsidiaries' ability to grow and meet their service obligations.

Findings

The Directors of the Authority considered this matter at the July 10, 2001 Authority Conference. Based upon careful consideration of the Application, the Authority finds and concludes as follows:

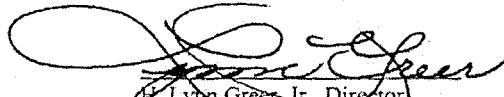
1. The Authority has jurisdiction over the subject matter of this Application pursuant to Tenn. Code Ann. § 65-4-113;
2. UI been granted authority to provide water services in Tennessee;
3. Nuon will acquire all of UI's outstanding stock, resulting in a transfer of the authority to provide utility services granted to UI;
4. Approval of the transfer of authority is appropriate pursuant to the provisions of Tenn. Code Ann. § 65-4-113.

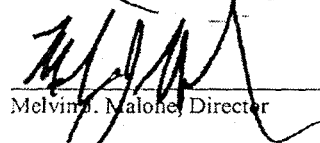
IT IS THEREFORE ORDERED THAT:

1. The Application of Utilities, Inc., and Nuon, N.V. for approval of the transfer of authority described herein is approved; and

2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from and after the date of this Order.


Sara Kyle, Chairman


Dr. Lynn Greer, Jr., Director


Melvin B. Malone, Director

ATTEST:


K. David Waddell, Executive Secretary

TEXAS

KELLY, HART & HALLMAN

(A PROFESSIONAL CORPORATION)

ATTORNEYS AT LAW

301 CONGRESS, SUITE 2000

AUSTIN, TEXAS 78701

TELEPHONE (512) 495-6400
TELECOPY (512) 495-6401
WRITER'S DIRECT DIAL NUMBER (512) 495-6413
EMAIL ADDRESS: stephen.dickman@khh.com

201 MAIN STREET, SUITE 2500
FORT WORTH, TEXAS 76102
TELEPHONE (817) 332-2500
TELECOPY (817) 878-9280

December 12, 2001

Ms. Elsie N. Pascua
Utilities & Districts Section
Water Supply Division
Texas Natural Resource Conservation Commission
P. O. Box 13087
Austin, TX 78711-3087

Re: RWE Aktiengesellschaft ("RWE AG") Acquisition of American Water Works Company, Inc. [owner of indirect controlling interest in Southwest Utilities, Inc. (Water CCN No. 11740; Sewer CCN No. 20581) and Walker Water Works, Inc. (Water CCN No. 11862; Sewer CCN No. 20762)]

Dear Ms. Pascua:

This is to formally advise the Texas Natural Resource Conservation Commission (TNRCC) that RWE AG and American Water Works Company, Inc. ("AWW") have entered into an Agreement for the acquisition by RWE AG of 100% of the outstanding common stock of AWW. RWE AG is a leading international provider of electricity, gas, water and wastewater utility services based in Essen, Germany. As a result of the proposed RWE AG acquisition of AWW, the stock of AWW will be wholly owned by Thames Water Aqua Holdings GMBH which is a wholly-owned subsidiary of RWE AG.

As described in my letter dated August 24, 2001 (copy attached as Exhibit 1), American Water Services, Inc. ("AWS") (a wholly-owned subsidiary of AWW) has recently completed acquisition of 100% of the stock of Azurix Industrials Corp. and Azurix North America Corp. ("Azurix N.A."). Azurix N.A. owns 100% of the stock of Azurix North America (USA), Inc.; which in turn owns 100% of the stock of Azurix North America Operations and Maintenance, Inc.; which in turn owns 90% of the stock of Dittman-Merka, Inc.; which in turn owns 100% of two Texas utilities: Southwest Utilities, Inc. ("SUI") and Walker Water Works, Inc. ("WWW").

In response to my letter of August 24, 2001, you sent me a letter dated October 31, 2001 (copy attached as Exhibit 2) verifying that the AWW/AWS acquisition of Azurix N.A. stock was not subject to the requirements of Texas Water Code, Section 13.302 and 30 TAC Section 291.111 ("Purchase of Voting Stock in Another Utility"). In order to complete the regulatory compliance process for the RWE AG acquisition of AWW, I am requesting a similar written verification from you that RWE AG's subsidiary's acquisition of AWW will not be subject to the requirements of Texas Water Code, Section 13.302 and 30 TAC Section 291.111.

Ms. Elsie N. Pascua
December 12, 2001
Page 2

Please note that all the facts set forth in the letter of August 24, 2001 pertain equally to the RWE AG / AWW transaction; the only difference is that AWW, including its subsidiary AWS, are now going to be acquired by RWE AG, a corporate holding company which will be even further up the corporate ownership chain. For example, other than SUI and WWW, none of the above-identified corporations holds a water or sewer CCN nor are they regulated as utilities by the TNRCC. None of the stock of SUI or WWW will be transferred or sold. Neither the capital nor operating structure of SUI and WWW will change. The legal title to the SUI and WWW facilities and equipment used and useful in providing water and wastewater service is, and will remain, in the names of SUI and WWW. Presently, the stock of SUI and WWW is wholly owned by Dittman-Merka, Inc. and after the proposed transaction, the stock of such utilities will continue to be held by Dittman-Merka, Inc.

RWE and AWW understand that if and when the utility assets of SUI and WWW are ever transferred out of Dittman-Merka, Inc. and into another corporate entity, such action will have to be authorized and completed in accordance with Texas Water Code § 13.301 and applicable TNRCC rules concerning sale/transfer/merger transactions.

Thank you in advance for your response and assistance in completing this portion of RWE AG's regulatory compliance review. Please feel free to call me with any questions you may have about the proposed stock transaction.

Very truly yours,



Stephen C. Dickman

SCD:rl

cc: Ms. Angela Stepherson, TNRCC Environmental Law Division

Robert J. Houston, Chairman
R. R. "Buddy" Marquez, Commissioner
Kathleen Hartman White, Commissioner
Jeffrey A. Salas, Executive Director



STEVE C. DICKMAN

JAN 23 2002

TEXAS NATURAL RESOURCE CONSERVATION COMMISSION

Protecting Texas by Reducing and Preventing Pollution

January 22, 2002

CERTIFIED MAIL

Mr. Steve C. Dickman
Kelly, Hart & Hallman
301 Congress Avenue-Suite 2000
Austin, Texas 78701

Re: RWE Aktiengesellschaft (RWE AG), Certificate of Convenience and Necessity No. (none)
to Purchase 100% of the Stock of American Water Works Company, Inc. (AWW), CCN
No. (none); [owner of indirect controlling interest in Southwest Utilities, Inc. and Walker
Water Works, Inc.]

Dear Mr. Dickman:

This is in response to your letter dated December 12, 2001, regarding the acquisition of 100% of
the outstanding common stock of AWW by RWE AG.

Our review shows that the above transaction is not subject to the requirements of the Texas
Water Code, Section 13.302 and 30 TAC Section 291.111 "Purchase of Voting Stock in Another
Utility." RWE AG and AWS are considered to be "not utilities" as defined by Texas law. In
addition, neither the purchaser nor the seller hold a water or sewer CCN nor are they regulated as
utilities by the TNRCC.

If you have any further questions, please contact me at (512) 239-5367, or by email at
spascua@tnrcc.state.tx.us, or if by correspondence, include MC 153 in the letterhead address.

Sincerely,


Elise N. Pascoe

Utilities & Districts Section
Water Supply Division

ENP/ac

MISSOURI

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office in
Jefferson City on the 13th day of
December, 2001.

In the Matter of the Proposed Acquisition)
of Missouri-American Water Company and)
American Water Works Company by the)
German Corporation RWE AG) Case No. WO-2002-206

ORDER CLOSING CASE

This case was opened when the Office of the Public Counsel, on October 25, 2001, filed a "Motion to Review Proposed Acquisition of Missouri-American Water Company and American Water Works Company, by RWE AG, a German Corporation." In that motion, Public Counsel requested that the Commission open a case to review the proposed acquisition of Missouri-American Water Company and its parent American Water Works Company by the German corporation RWE AG.

American Water Works Company owns Missouri-American Water Company, a Missouri corporation that operates as a regulated water utility in Missouri. American Water Works is not a regulated water corporation or public utility, nor is RWE.

On November 20, Missouri-American, American Water Works, and RWE filed a joint response opposing Public Counsel's motion. They asserted that the transaction is between the parent company of Missouri-American and a non-regulated German corporation, and that the Commission does not have jurisdiction to review the transaction. They noted that when the transaction is complete, Missouri-American will

remain a wholly owned subsidiary of American Water Works, and that the transaction will be transparent to its customers.

On November 28, Public Counsel filed a pleading responding to Missouri-American, American Water Works, and RWE. On December 4, Missouri-American, American Water Works, and RWE responded to Public Counsel's November 28 reply. On December 7, the Staff of the Commission filed a pleading concurring with the position taken by Missouri-American, American Water Works, and RWE.

The Commission has reviewed the pleadings, the cases and the Missouri statutes cited by parties, and the structure of the proposed transaction. The Commission determines that there is nothing in the statutes that confers jurisdiction to examine the acquisition of a non-regulated corporation by another non-regulated corporation, even though one of them may own a Missouri-regulated utility company. The Commission's past approach to transactions of this type has been the proper one, and will be followed here. Since the Commission has no jurisdiction, it will close this case.

IT IS THEREFORE ORDERED:

1. That the motion to review the proposed transaction filed by the Office of the Public Counsel on October 25, 2001, is denied.
2. That this order shall become effective on December 23, 2001.

3. That this case may be closed on December 24, 2001.

BY THE COMMISSION

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Simmons, Ch., Murray, Gaw and Forbis, CC., concur
Lumpe, C., absent

Mills, Deputy Chief Regulatory Law Judge

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and

I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 13th day of Dec. 2001.

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
December 13, 2001

CASE NO: WO-2002-206

Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

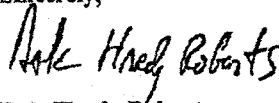
General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Paul A. Boudreau
Brydon, Swearingen & England P.C.
312 E. Capitol Ave
P.O. Box 456
Jefferson City, MO 65102

James F. Mauze
The Midvale Building
112 South Hanley
St. Louis, Mo 63105-3418

Enclosed find certified copy of an ORDER in the above-numbered case(s).

Sincerely,



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge